DOCUMENT RESUME

ED 118 284 RC 006 626

TITLE Rural Development Act of 1972: Report Together with Additional and Individual Views [To Accompany S. 3462]. 92d Congress, 2d Session, April 7, 1972.
INSTITUTION Congress of the U.S., Washington, D.C. Senate Committee on Agriculture and Forestry.
PUB DATE 7 Apr 72
NOTE 141p.; A related document is RC 006 627

EDRS PRICE MF-$0.83 HC-$7.35 Plus Postage
DESCRIPTORS Community Development; *Credit (Finance); Definitions; Environmental Criteria; Evaluation; *Federal Legislation; *Government Publications; Investment; Needs Assessment; Program Proposals; Reports; *Revenue Sharing; *Rural Development
IDENTIFIERS *Rural Development Act 1972

ABSTRACT

Submitted to the U.S. Senate by the Committee on Agriculture and Forestry, this report on the Rural Development Act of 1972 contains the following: (1) Brief Explanation of the Bill (Titles I-VII); (2) Statements on the Need for Rural Development and Rural Development Credit and Investment; (3) Titles I-VII (presented via a short explanation, a general statement, and a section by section explanation); (4) Message from the President of the U.S. Proposing a System of Special Revenue Sharing for Rural Community Development (Rural America in Transition: The Urban Stake in Rural Development; Programs; How Revenue Sharing Works; Building on Success: Streamlining the Rural Assistance Effort; The Statewide Development Plan; The Logic of Rural Development Revenue Sharing; The Urban-Rural Partnership); (5) Message from the President of the U.S. Transmitting Proposals for a Program of Rural Development (The Problems of Rural America; Changing Our Approach; Proposals Already Submitted to Congress; New Proposals--Expanded Credit for Rural America and Improving the Rural Environment); (6) Recommendations (submitted via letter) from the U.S. Department of Agriculture, the Deputy Comptroller General of the U.S., and the Environmental Protection Agency; (7) Transcripts of Proposed Changes in Existing Law Made by the Bill; (8) Individual Views on the Bill (Milton R. Young, Jack Miller, Bob Dole, Carl T. Curtis, George D. Aiken, and Allen J. Ellender). (JC)

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ED118284

Cong RC

Calendar No. 703

92D CONGRESS, 2d Session } SENATE { REPORT No. 92-734

RURAL DEVELOPMENT ACT OF 1972

April 7, 1972.—Ordered to be printed

Mr. TALMADGE, from the Committee on Agriculture and Forestry submitted the following

REPORT

together with additional and

INDIVIDUAL VIEWS

[To accompany S. 3462]

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE NATIONAL INSTITUTE OF EDUCATION

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The Committee on Agriculture and Forestry, reported an original bill (------), to provide for the development of rural areas, with a recommendation that it do pass.

SHORT EXPLANATION OF BILL

This bill, cited as the Rural Development Act of 1972, provides for a number of methods of assisting in the development of the rural areas of this country. It is divided into 8 titles as follows:

Title	*Report Page*
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RC 006626

General Statement

This bill stems directly from the enactment by the Congress and the President of Section 901(a) of the Agricultural Act of 1970, which stated:

COMMITMENT OF CONGRESS

> Sec. 901. (a) The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity, and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas.

The bill, which builds upon or is modeled after successful existing rural development programs, would, if enacted, provide another large part of the financial investment, credit, educational, research, technical, and institutional resources required to implement the statement of policy contained in Section 901(a). The aim is to improve the quality of life and the income and job opportunities that are available in rural America.

Titles I and II of the bill establish a complete Non-farm Rural Development Credit System modeled on the successful experience of the institutions of the Farm Credit System and Farmers Home Administration. The bill places maximum reliance on the existing private and governmental rural and national banking system and private enterprise.

Title I is structured generally along lines of the legislative provisions for the Federal Land Banks, their local associations, and the Farm Credit Administration and will like them eventually be fully owned and controlled by participating local private banks and borrowers.

Title II amends the Consolidated Farmers Home Administration Act of 1961 to expand the loan and grant purposes in existing law to other types of rural development projects.

Titles I and II place major reliance upon the guarantee, insurance or discounting by the Rural Development Credit System or by the Farmers Home Administration of loans made by local banks and other financial institutions.

Title I, II, and III, along with other titles of the bill, provide for rural location incentives payments designed to encourage, facilitate, and finance, along with credit expansion, the location in rural areas of investments in private industrial and business enterprises and rural community services and facilities and public works. Incentives are also provided for required planning and coordination of orderly economic development and the protection and enhancement of the natural, cultural, and economic environment of Countryside USA by State, district, and local planning bodies.

Title III authorizes not to exceed $500 million per year to carry out a nationwide program of Federal rural community development revenue sharing with States, multijurisdictional substate planning and development districts, and local governments—counties and municipalities—in rural areas. These funds, within general standards provided in the bill, can be used by States, districts, and local governments as they see fit to carry out rural development purposes and projects, including the matching of Federal funds available for such purposes under other laws.

Title IV and V expand the purposes, and increase the Federal funding, for which the Federal government may finance part of the cost of the successful multipurpose rural development efforts embodied in the small watershed (P.L. 83–566) and resource conservation and development and rural renewal project programs under Title III of the Bankhead-Jones Farm Tenant Act.

Title VI establishes a new program of Federal-State matching grants program, on a 3-year trial basis, to improve rural fire protection and suppression built upon the successful, coordinated, cooperative, Federal, State, local, and private forest fire fighting system.

Title VII establishes, for rural non-farm and small farm development, the same kind of independent cooperative Federal-State extension-research-and-education system as has proved so successful in the fields of agriculture, home economics, nutrition, and 4–H Clubs.

Title VIII (1) requires that all assistance under the Act be designed to increase the national total of jobs, income-earning opportunities, and business, not to move them from one place or firm to another; (2) expands the statutory mission of the Department of Agriculture with respect to rural development activities; (3) establishes a nationwide program of long-term cost sharing contracts with landowners, occupiers, and operators for environmental protection and enhancement based upon complete conservation plans developed by local conservation districts with technical assistance of the Department of Agriculture; and (4) broadens the purposes of the Rural Environmental Assistance Program (REAP, formerly ACP) to include pollution control.

The Committee intends that the assistance provided by the bill would be in addition, rather than in substitution, for what the local people can do themselves. Local banks would be expected to provide much from their own funds and facilities toward this effort to improve their communities. Participating banks would be required to purchase stock in the District Agencies, and fund at least 5 percent of each loan made by them under Title I, as well as continuing to provide funds for development activities which would normally be funded by them.

The terms "rural development purpose" and "rural development community project" are broadly defined in the bill, to include any project that will enhance any rural community as a place to live, with a list of examples being given in each case. Thus paragraph (1) of each of these definitions states that the definition includes projects that "establish or improve public works or community services or facilities." This would make possible loans and grants for such facilities as water or gas transmission, storage, or distribution facilities.

Committee Consideration

Hearings

Shortly after the beginning of the first session of this Congress, a new Subcommittee on Rural Development was appointed.

On April 14 the Senate approved S. Res. 76, authorizing supplemental expenditures by the Committee on Agriculture and Forestry for an inquiry and investigation pertaining to rural development.

Almost immediately following the passage of this resolution the Subcommittee launched a series of hearings, held both in Washington, D.C. and in various parts of the country. Ten days were devoted to Washington hearings, and seven days to field hearings, during which time almost 350 individual witnesses were heard.

Washington hearings were held on April 23, and April 29; June 16 and 17; July 23, September 20–24, 1971. Field hearings were held in Sioux City, Iowa on May 3, Vermillion, South Dakota on May 4; Montgomery, Alabama on July 8; Tifton, Georgia on July 9; Stillwater, Oklahoma on September 9; Lincoln, Nebraska on September 10; and Bowling Green, Ohio, on December 14, 1971. These hearings produced a number of ideas and suggestions in regard to rural development. The hearings have been printed and made available to interested parties.

Rural Revenue Sharing

On April 21, 1971, S. 1612, the Administration's bill to establish a revenue sharing program for rural development was introduced and on April 23, the Subcommittee on Rural Development held its first hearing on the measure. Three Cabinet officials, Secretaries Connally, Romney and Hardin appeared jointly to testify on behalf of the bill. Additional hearings were held on the measure on April 29, June 16 and 17, and on September 20 in Washington, D.C. Most of the witnesses objected to the provision of S. 1612 which would terminate or suspend the authorization for Federal expenditures for eleven existing programs.

On October 15, 1971, an amendment (Amendment No. 470) in the nature of a substitute to S. 1612 was introduced. It retains many of the features of S. 1612, but it differed by leaving intact all of the eleven existing Federal programs. In addition, it authorized appropriation of $500 million annually for rural development revenue sharing to be allocated to the 50 States, with required pass-throughs to State-established multi-jurisdictional planning and development districts and to local governments. With some further modification, this substitute was adopted by the Committee and now appears as title III of the bill.

Rural Development Credit and Investment System

S. 2223 was introduced on July 7, 1971. This bill (1) amended the Consolidated Farmers Home Administration Act of 1971; and (2) provided for the establishment of a comprehensive rural development credit and investment system totally separate from, but similar in operation to, the Farm Credit Administration.

On June 8, 1971, an amendment (Amendment No. 153) to S. 1483 (The Farm Credit Act of 1971) was introduced to establish *within* the Farm Credit System, a Rural Community Development Bank. This proposal basically embraced the recommendations of President Nixon's Task Force on Rural Development. In recognition of the need for additional financial muscle in rural areas to stop and reverse the on-going trend of outmigration, the Task Force stated in its final report, "The Task Force recommends a new credit institution to provide rural areas with greater access to private capital. This institution—to be named the Rural Development Credit Bank—should be structured in law as a wholly new title in an amendment to the Farm Credit Act."

The Subcommittee on Rural Development held extensive hearings on both measures and on October 28, 1971, the Subcommittee ordered S. 2223 with amendments reported to the full Committee in the form set out in the Committee Print of October 22, 1971.

The full Committee began executive consideration of the rural development proposals that were before it on November 2, 1971, and ordered the bill reported on March 21, 1972. Nine executive sessions were held on this legislation.

Committee consideration involved, in addition to the bills reported by the Rural Development Subcommittee, (1) question of an appropriate definition of rural areas; (2) the provisions of S. 2981 to expand and strengthen the small watersheds (Public Law 566) program and Resource Conservation and Development projects operated under Title III of the Bankhead-Jones Farm Tenant Act; (3) the provisions of S. 69, S. 963, and S. 3278 to establish grants-in-aid and to strengthen rural fire protection activities; (4) proposal to expand the scope of the cooperative Federal-State extension service, research, and training programs to give added specific emphasis to rural development and the problems of small farms; and (5) the major provisions of H.R. 12931, the Rural Development Act of 1972, as passed by the House of Representatives.

The Need for Rural Development

> But the Growing Point of American life is scarcely to be found in the small town today. Latterly, the important lines of growth have been elsewhere. It is partly that all the small units in American life are having to wage a losing fight—not only the small town but the small farm, the small business firm, the small college, even the neighborhood within the big city. Somewhere between the turn of the century and the New Deal the small town felt the withering touch of the Great Artifact that we call American society, and in the quarter century between 1930 and 1955 the decisive turn was made, away from small-town life. The currents of American energy moved around and beyond the small towns, leaving them isolated, demoralized, with their young people leaving them behind like abandoned ghost towns * * *
>
> * * * If the small town is wholly sacrificed there will be sacrificed along with it some continuity of face-to-face relations, an awareness of identity, a striving to be part of a compassable whole, a sense of counting for something and being recognized as a person and not a cipher.—Max Lerner in "America as a Civilization".

Following the riots in Detroit a few years ago, the business community of that city formed an organization that created 50,000 new jobs for the poor. It was an enormous community effort. And when it was done, Detroit learned that its unemployment rate was slightly higher than it had been before the jobs had been created. The word had gone out on the migration grape vine that there were jobs in Detroit for rural people who wanted to work.

Governor Bruce King of New Mexico reports that each time Albuquerque gets a new industry, the city's jobless rate inches up just a little, and the population of the New Mexico countryside declines proportionately.

Before the 1920s, Metcalf, Georgia, was a proud and prosperous little town. The streets were lighted with kerosene post lamps. Farmers used to come in on Saturdays to sell their cotton and produce, and there was enough commerce to support two banks.

Metcalf was more than a town. It was a gathering place where people could sit around tables in the saloon, tell stories, hear the news and watch curiously as occasional blobs of spit sizzled down the side of the iron stove.

J. Truman Holland remembers it. He says it was a "hello, how are you" kind of place. Mr. Holland ran one of the banks. But he doesn't live in Metcalf anymore. Few people do. There's just a tumble-down store there today with a little sign stuck in the screen door that says, "We accept food stamps."

Metcalf is dead.

Before dawn each day, a farmer in the panhandle of Oklahoma packs his young daughter into a pickup truck and drives her eight miles to the school bus stop. She waits for a while in the morning chill for a bus that takes her on a two-hour trip to class. Each night she returns just in time for supper. Her father says, "I don't know what to do. It isn't fair to her. Maybe I'll have to move to town."

The song asks, "Where have all the young men gone. . . ."

Some went to war and never came back to their small town homes. Others returned to the countryside expecting a better life than they had left. Often they were disappointed.

A lot of the young men went to Chicago and Detroit and New York. Many took skills and energy with them. Many didn't. A lot of them were able to adjust to the new pressures of big city living. Many could not.

Thirty million Americans have left the farms and the small towns, since the beginning of World War II, for the promise of city living, draining the countryside of its promise. Though it has slackened, the migration continues at a rate of about 600,000 people a year.

In 1960 the Department of Agriculture dourly predicted that by 1980, this nation would only have 2.6 million farmers remaining on the land. It's only 1972 and there are only 2.9 million left.

And somehow those wonderful conveniences of the big cities—the ready-at-the-tap potable water; plenty of natural gas and electricity; garbage pickups; sewage disposal; police and fire departments—somehow these systems seem to be fraying at the edges. Things don't quite work anymore. Not like they used to.

Seventy percent of our people now live on two percent of the land, pressed into Balkan corridors along the seacoasts and the Great Lakes. One of these concentrations, Southern California, is already being called a water deficit area.

Dimly, those who live in and around the major cities and the people left behind in the countryside, are beginning to perceive that something is wrong. Nobody planned it that way, and maybe that's the trouble.

Fun City isn't laughing anymore. And Main Street is covered with the dust of faded memories and the cobwebs of national neglect.

Former Governor Edward Breathitt of Kentucky says:

> Through a complete lack of any governmental policy, we have permitted rural America to deteriorate like a rusting hand plow languishing in a fallen down barn, while the social and economic problems once scattered across the thousands of square miles of our great land have become compacted into urban ghettos where they have become both more evident and more volatile.

At some time, not long after the turn of the century, our population may have increased by as much as 100 million. Most of them will be born in the metropolitan regions that now labor under the strain of too many people. They will be born into cities without adequate electric power to heat their bottle warmers. They will be born in look alike subdivisions in look alike houses in suburbia where even enormous property taxes are inadequate to build classrooms fast enough. They will be born at the edges of beltways, expressways, freeways, throughways and circumferential highways, and when they look to the sky it will not be blue. Their eyes will be filled with a noxious, nitrous substance whose trade name is "Progress."

It seems unlikely that the chamber of commerce will lead off its annual report anymore with the proud declaration of how many additional people there are in town.

What then?

Some say, "Build new cities." And a few new cities have been built, with names like Reston and Columbia. But to house all of the new babies it would require construction of a new city of 10,000 people every day for the next 30 years. It would mean thousands of new sewer systems built from scratch; thousands of new police departments; thousands of new street plans; thousands of new school systems. There are no bounds to the economic and social costs of such a proposal taken alone as a national policy.

But in rural America, thousands of small, viable towns already exist with the root systems of community facilities that already function. These small towns are political and economic beginnings that can be built upon—not to create new "slurbs" and mounds of rabbit warren urban decay—they are a foundation on which can be constructed a new rural society that will provide jobs and services for those already living there, and for those who would return, if they could, to their personal beginnings in the countryside.

It would be foolhardy to propose a national policy of "back to the farm." But a sensible policy of balanced national growth that would keep rural America strong and uniquely rural, while making better use of the land for all the people, is something that can be put together. It makes sense that it be implemented.

Although J. Truman Holland does not live in Metcalf anymore, he does live in Thomasville, just a few miles down the road. Thomasville is alive and healthy. It has its problems and needs. But Thomasville supports a daily paper, a small mobile home industry, a farmers market and a community willingness to succeed.

Thomasville will be all right, with a little help, and there are hundreds of Thomasvilles all across the face of this land.

Dr. Peter Goldmark is a scientist who holds more than 100 patents. He is best know for development of the long playing record and the communication system between earth and the astronauts.

But Dr. Goldmark is concerned about the vast amounts of the nation's energy resources that huge cities use up. He is concerned about the effects of the stresses that the morning rush hour puts on people. Dr. Goldmark is a futurist, and he sees a new future for America in the *careful* development of rural America.

President Nixon has said that it will never be his policy to force the distribution of people to places they do not want to live. But the President has also called for balanced national growth.

Title IX of the 1970 Farm bill recognizes that government can influence directly where people will live by where it puts Federal facilities and installations, Huntsville, Alabama, was a small country town before the Redstone Arsenal was located there. Now it is a major city. The Tennessee Valley was once a severe pocket of poverty, where malaria and gross unemployment were endemic. Since the establishment of TVA, the valley is one of the nation's healthiest growth areas. The vast development of Southern California was possible because water was made available.

Bacon County, Georgia, was once a quiet backwater, out of the mainstream flow of the Interstate highways. After the county became the first *rural* Model Cities area, 500 new jobs were created there; 429 of them in the private sector.

Even though there are important signs that rural America is making a significant comeback, there are still many problems, as reported in 1971 by Calvin L. Beale of the Economic Research Service of the U.S. Department of Agriculture:

> The heavy decline of farm people has masked from public notice the rapid growth of the nonfarm segment of the rural and small city population.
>
> Because of its long and rapid decline, the farm population now numbers less than 10 million, compared with 30 million 30 years ago. Most of its potential loss has now occurred. It is simply impossible for future outmigration from farms to approach the losses of the recent past. Thus, if nonmetro areas can continue to maintain the conditions that retained and attracted nonfarm people in the 1960's the overall nonmetro populaiion growth will converge further toward the national average as the influence of farm losses diminishes.
>
> If we look at counties by degree of rurality, we find that the completely rural counties of the United States had a small overall loss of people, and that county population rates varied directly with proportion of urban population.
>
> But as unlikely as it may seem at first glance, the growth rate of nonagricultural jobs was actually higher in rural counties than in the urban group during the 1960s, and the highest of all in the completely rural group—a pattern just opposite of that of population growth. Rural counties had a growth of 43 percent in nonagricultural wage and salary jobs covered by the OASI system from 1959 to 1969.
>
> This high rural job growth failed to bring much population growth for two reasons. First, the more rural a county the smaller the proportion of the labor force working in nonagricultural wage and salary jobs tends to be. Thus the recent nonfarm job gains in such counties start from a low base and have been readily offset by declines in farm work. Secondly, many jobs newly taken by rural residents have been going to women, who were previously underrepresented in the rural labor force. These jobs have raised the incomes of many rural households, but jobs for women do not serve to increase the number of families in an area as increased jobs for men do. . . .

> * * * Perhaps the main attraction that people believe they see in smaller-scale communities is a superior environment in which to raise children. People also seem to be of the opinion that there is less stress and tension in smaller towns and rural areas. These perceived virtues are not likely to retard the outmovement to urban areas of small town and rural youth seeking an education, a job career, or exposure to the urban scene. But they do attract many people at almost any later stage in life.
>
> Few people view small towns and rural areas as offering much economic opportunity for young people, as compared with cities. Although I have stressed that nonmetro employment opportunities have improved, nonmetro income levels continue to be much below those of metro areas. Nonmetro families averaged less than 80 percent as much income in 1968 as metro families, a difference of $2,000. Indeed, I think it can be said that modern civilization in general has not yet succeeded in making average small town and rural incomes the equal of those in the cities.

Mr. Beale tells us that employment is picking up in rural America, but there remains a high level of underemployment in the countryside, where slightly more than one-third of the American people live.

Rural America has about half of the nation's poverty; 60 percent of the substandard housing; hundreds of towns are without adequate water and sewer systems; solid waste disposal is a burgeoning rural problem; in many rural areas there is a lack of credit for housing, venture capital and even public facilities.

In terms of Federal spending, the disparities continue to grow. When total Federal outlays are divided by the number of persons living in metropolitan and nonmetropolitan counties, the nonmetro counties get less than the metro areas. The difference is 17 percent, or $680 per capita for the nonmetro counties as opposed to $779 in the metro areas.

Furthermore:

> 57 percent of the Federal outlays in fiscal 1970 went to the most urban counties.
>
> Only 3.3 percent went to sparsely settled rural areas with no urban population.
>
> Federal outlays per person were highest in the semi-isolated urban counties—$835.
>
> Least favored were the densely settled rural counties—$449 per person.

Rural America is both separate and unequal.

The people of rural America have been denied the quality of life which metropolitan residents have come to accept as their right.

This inequality is not fair to those who continue to live in the countryside. To continue the status quo is unwise if the nation is to seek a truly balanced social and economic growth.

The Rural Development Act of 1972 is not a simplistic effort to get a better return of tax dollars to rural America, it is not part of a scheme to detract from the major cities. The cities are already being debilitated by the new American exodus of people and treasure to the suburbs.

This legislation is a second step to bring some planning and sanity to national growth patterns that will provide Americans with a freedom of residence—a choice of where they may live and work; a choice which they do not presently have. The first step in this direction was the enactment of Title IX of the Agricultural Act of 1970. The journey to the goal of directed, planned and balanced national growth is a long one. Even the longest journey must begin with a single step. That has been taken. It is time to take another.

Rural Development Credit and Investment

A Total Approach

The first two titles of the Rural Development Act of 1972 deal with first things first—the urgent need for expanded credit and investment in rural America for all purposes.

Obviously, the first steps toward meaningful rural development must be aimed toward strengthening the economic position of farmers, and the Administration reports that the requirements for farm credit are expected to double in the next several years. Title II of the proposed legislation takes a broad spectrum approach toward making this credit available, in an effort to make family farming something more realistic than a political catch phrase.

But small town residents have significant credit and investment problems too. These are seen to in both title I and title II of the bill.

Together, title I and title II represent a total approach to solving the problems which rural people have in obtaining credit, and both titles go a long way toward encouraging investment in the American countryside—the forgotten frontier. This approach to rural non-farm development credit needs is modeled upon and parallels the successful approach provided by Farm Credit Administration and Farmers Home Administration in meeting rural farm credit needs—the former, a borrower-owned hard credit private banking structure; the latter, a governmental credit source of last resort.

In Agriculture

In the old days of 40 acres and a mule, American agriculture operated on revolving credit, built around the crop cycle. But now the mule has all but disappeared and the 40 acres that was once an efficient farmstead is more likely 450 acres.

Animal and hand labor have been replaced by combines, tractors and a myriad of specialized kinds of farm operating equipment now considered essential if a farmer is to produce the most his land will give at the lowest cost.

As a result of these changes in agriculture, the need for farm credit has increased enormously. In addition, the higher start up costs of getting into agriculture in the first place keep many young people out of a farming career unless they are fortunate enough to inherit an equipped farm.

The inability of both prospective farmers, and those who have toiled in the fields for years, to get credit when they needed it has been a considerable factor in the decreasing number of those who farm.

Certainly the Farm Credit System has taken up much of the slack. But the "credit of last resort" or "soft credit" provided by the Farmers

Home Administration needs strengthening. Higher costs of machinery and other operating materials have made the existing operating loan limit of the Farmers Home Administration unrealistic.

At present, these loans are direct loans, with the money coming out of the Treasury. This legislation proposes that these loans become insured loans instead, so that the amount of money available under this program can be expanded considerably. In addition it would raise the loan limit from $35,000 to $50,000. The legislation would also give special help to young people who wish to get started in farming or in some other enterprise.

The Farmers Home Administration has reported that half of those who, for one reason or another, are unable to get this soft credit eventually leave farming.

If a system of family owned and operated agriculture is what America deems to be desirable, as opposed to national domination by a few large conglomerate entities, then this credit of last resort must be strengthened and made viable.

Nonfarm Rural Credit

Because of the unique circumstances by which the financial system works in rural America, it is clear that rural funds tend not to revolve within rural communities, but instead, they flow largely into the largest population centers. They flow into bond markets, stock markets, insurance companies, corporate bank accounts and trust funds—all of which are uniquely metropolitan.

There is some flow of urban dollars into rural areas, but the amount is not so great, because rural areas are not maintaining and using their funds locally.

Small town banks are limited by small reserves from making large loans, and the requirements of regulations under which they operate force them to loan money for short periods of time to those who represent no risks whatsoever. Often small bank reserves are invested in government bonds instead of being loaned out, once again heightening the flow of rural money to metropolitan centers.

There are nearly 14,000 banks in this country. Of this number, 5,000 have less than $5 million each in deposits, considered by many to be the minimum economical size for a bank. Nearly all of these smaller banks are located in rural places. Even though many local rural development efforts are led by bankers, inherently, these bankers now have only limited means at their disposal to accomplish what they wish in terms of economic development.

This lack of investment power by banks, and the lack of venture capital by rural entrepreneurs is a crucial flaw, because research has shown that programs of the Federal government designed to assist business investment appear to have the greatest impact geographically by inducing additional economic activity. Yet there are no Federal credit programs that provide a line of credit for a broad range of nonfarm rural community and business needs.

Many small communities are prevented from doing those things which attract economic development because they *do not need enough money*. Few bond houses will handle issues of less than $500,000. The same situation exists with stock issues. As a result, nonrevenue producing services are completely neglected by rural communities, and even credit for self-liquidating, or partially self-liquidating activities, such as water and sewer lines, is hard to come by.

Unless more credit is made available for projects which can pay at least a part of their own way, small towns will never be able to use local tax dollars for those things which improve the quality of rural life; make communities attractive for commercial expansion; and are part of the American way of living which most non-rural residents take for granted.

It is estimated that the cost of all anticipated rural water and sewer needs is more than $13 billion.

A study of the availability of credit in Kentucky revealed:

> Although borrowers seem to have access to a great number of sources, credit funds for economic development appear to be relatively scarce. There are alternative sources of credit for special kinds of lending, such as housing and farming. Business and commercial needs, especially for development, however, have few alternatives to commercial bank credit.

In a report by Iowa State University on The Impact of Population Change on Rural Community Life, it was reported that approximately 30 percent of those interviewed in Greene County, Iowa, identified the lack of credit and loan services as a major problem.

The National Advisory Commission on Food and Fiber said:

> Even though agricultural capital may be generally adequate in rural areas, the nonagricultural capital available is generally inadequate. Such beneficial policies as preferential reserve requirements for country banks under the Federal Reserve System, the Small Business Administration and the Area Redevelopment Administration have been helpful—but they have not been enough.

TITLE I—RURAL DEVELOPMENT AND FINANCIAL RESOURCES ACT OF 1972

SHORT EXPLANATION OF TITLE I

This title provides for the establishment of a borrower-owned rural non-farm development credit banking system similar to the Farm Credit System.

The new system would be called the Rural Development Credit System, and would consist of—

(1) a Federal Rural Development Credit Board (referred to as "Federal Board"), which would establish general policy for the system. (Subtitle B—sections 201 and 202);

(2) a Federal Rural Development Credit Agency (referred to as "Federal Agency"), an independent agency in the executive branch, headed by an Executive Director, which would exercise general supervision over the system (except the Federal Rural Development Investment Incentives Administration) (section 308), finance rural development projects, (sections 309, 312, 313), and provide technical assistance in developmental banking. The Secretary of Agriculture is authorized to insure financial assistance extended by the Federal Agency (section 314) (Subtitle C—sections 301–315);

(3) Ten Regional Rural Development Banks (referred to as "Regional Banks"), which would be Federally chartered instrumentalities of the United States; would raise funds through the sale of stock to

the United States, District Agencies, Participants, Cooperators, other rural financial institutions, and borrowers and through the sale of debentures; and would extend financial assistance for rural development purposes directly or through District Agencies, Participants, cooperators, or other financial institutions. (Subtitle D—sections 401–426);

(4) District Rural Development Credit Agencies (referred to as "District Agencies"). These would be financial subsidiaries of multijurisdictional planning and development districts applying for and receiving charters as instrumentalities of the United States. They would raise funds through the sale of stock to the United States, borrowers, persons eligible to borrow, Participants, cooperators, and investors; and would extend financial assistance for rural development purposes and other requirements either directly or through Participants and cooperators (Subtitle E—sections 501–507);

(5) Participating Rural Development Financial Institutions (referred to as "Participants") and cooperators. Any financial institution or unit of local general government could (1) upon application be designated a Participant, or (2) qualify as a Cooperator by participating in a loan for a Regional Bank or District Agency and purchasing nonvoting stock equal to one percent of the loan. Participants and cooperators could obtain and extend financial assistance from and for District Agencies and Regional Banks; but only a Participant could purchase voting stock (Subtitle F—sections 601–609); and

(6) a Federal Rural Development Investment Incentives Administration established and supervised by the Federal Board and headed by an Administrator, appointed and serving by and at the pleasure of the Federal Board and the President. It would provide interest supplements and capital augmentation grants to assist rural development. (Subtitle G—sections 701–707).

GENERAL STATEMENT

A. *General Purpose.*—This title provides for a permanent system of rural development credit banks and related financial institutions and services—modeled after the Farm Credit System, but separate therefrom—to support the existing private rural banking system in meeting the credit needs of both rural communities and rural private business enterprises. This system would utilize the nation's existing network of commercial banks, and would eventually become a wholly independent credit system owned by borrowers and local banks, other financial institutions, and units of local government without reliance upon Congressional appropriations for loan funds or operating expenses.

B. *Federal Rural Development Credit Board.*—This Board would establish the general policy for the entire Federal Rural Development Credit System and all its institutions in carrying out the provisions of this Act. The Board would be composed of 15 appointed and 4 ex-officio members. Appointed members would be appointed by the President, by and with the advice and consent of the Senate. Ex-officio members would include the representative of the Secretary of Agriculture serving on the Farm Credit Board; the Governor of the Farm Credit Administration; the Executive Director of the Federal Rural Development Credit Agency; and the Administrator of the Federal

Rural Development Investment Incentives Administration. Twelve of the 15 members of the Board must be legal residents of rural areas, and all members of the Board would be appointed for six-year terms with the exception of the first appointees.

C. *Financing the New Credit and Investment Incentive System* would be accomplished through an appropriation by Congress of not to exceed $200 million annually for 10 years for the Federal Rural Development Credit Agency to purchase stock of Regional Rural Development Banks, all of which would eventually be retired and repaid to the Federal Treasury. Stock, debentures, and bonds would be sold in regional and central money markets by such banks, and by the Federal Rural Development Credit Agency on behalf of such banks. Not-to exceed $100 million annually would be authorized to be appropriated by Congress for the Federal Rural Development Investment Incentives Administration to make payments to encourage expansion of private enterprises into rural areas and to provide financial assistance to public bodies in carrying out rural development projects. This financial assistance could be made either in the form of an interest supplement or a capital grant. Only public and nonprofit entities would be eligible for the capital grants. But both private and public entities would be eligible for interest supplements.

D. *The Organizational Structure of the New System*, under policy control of the Board, would include a Federal Rural Development Credit Agency, headed by an Executive Director appointed by the Federal Rural Development Credit Board with the advice and consent of the Senate. Ten Regional Rural Development Banks would be established to serve all regions of the nation. These banks would provide credit assistance required for rural development purposes within each region; supervise rural multijurisdictional District Rural Development Credit Agencies and participating local financial institutions; and issue loan guarantees, debentures, bonds and other obligations to gather funds from central money markets to be made available in rural areas for community development projects and enterprises. Each of these banks would be governed by its own Board of Directors—but would be required to operate within the policy of the Federal Board and under supervision of the Federal Agency. Each Bank would have a President, selected by its own Board to serve as chief executive officer.

District Rural Development Credit Agencies could be established under the system, as financial subsidiaries of any multijurisdictional, areawide, general purpose planning and development district established by States to serve rural areas. These District financial agencies would own capital stock of and obtain financial assistance from the Regional Banks. These District agencies would, in turn, provide guaranties, insurance, or discounting for loans made by participating local financial institutions. Local banks and other financial institutions and units of general government in rural areas could apply for and become qualified to act as participants in the Rural Development Credit System, and would thus become the local point at which potential borrowers would submit applications.

In addition to the system of credit agencies established by this bill, a Federal Rural Development Investment Incentives Administration would be created under the direct control and supervision of the Federal Rural Development Credit Board, but would be operated

independently of the Federal Rural Credit Agency and its related institutions. An Administrator would be appointed by the Federal Board to serve as the chief executive officer of the Investment Incentives Administration. The function of the Administration would be to administer the rural location incentives program of interest supplements and capital grants. Eligibility for rural location incentives would be in accordance with strict criteria established in the bill. Provision for this investment incentives program is in recognition of the nationally established policy promulgated by Congress to foster a more balanced national distribution of population and economic growth in the United States as cited in Title IX of the 1970 Agricultural Act and Title VII of the 1970 Housing and Urban Development Act.

E. *Loan Purposes.*—Guarantees, insurance, or rediscounting of local bank loans could be obtained through this new credit system for rural development purposes, as long as such purposes contribute to balanced national growth policy or the enhancement of rural communities or rural areas as a place to live and make a living. These are the same rural development purposes listed by the President in his 1971 and 1972 Rural Community Development Messages to Congress.

Eligible borrowers under the new credit system would include individual persons, partnerships, corporations, cooperatives unable to obtain needed funds from the Banks for Cooperatives under the Farm Credit System, public and quasi-public bodies and their instrumentalities and nonprofit private associations. However, loans are restricted to borrowers who cannot obtain credit elsewhere. Borrowers would be required to purchase capital stock in the credit system, as a condition of loan approval, in an amount equal to not less than 5 percent, and not more than 11 percent of the loan amount applied for. Loan applicants must demonstrate that the project or enterprise for which the loan funds will be utilized will primarily operate within a rural area and benefit rural residents. Applicants also must demonstrate that the project to be financed with loan funds secured from the system will not result in the geographic transfer or displacement of employment opportunities or business activities elsewhere in the area, in another area, of a competing firm, branch plant or contractor or subcontractor of either, or in the creation of added capacity in any industry already suffering from excess capacity. The applicant's loan application also must have the endorsement of the multijurisdictional governmental planning and development district, if any, certifying that the proposed project is not inconsistent with the current comprehensive development plan for the district where located.

Neither the Title I or Title II credit programs would be duplicative or competitive with the rural housing, banks for cooperatives, and other programs available under the Farm Credit Act of 1971 or with the credit available from the private banking system of the Nation. A cooperative would be expected to make full use of the assistance available from the banks for cooperatives and to depend upon the Rural Development Credit System or the Department of Agriculture only for that part of its financing that it cannot obtain from the banks for cooperatives.

The Committee intends that Rural Development Credit System will utilize to the fullest extent possible the credit and grant resources of other Departments and Agencies of the Federal and State governments and the financing and services of private banks and other

financial institutions, and to strengthen them, through reliance upon guaranteed loans, insured mortgages, or discounting of loans made by them. Institutions of the Rural Development Credit System are authorized to participate with other credit agencies in making loans to eligible borrowers.

F. *Loan Terms, Conditions and Security Requirements.* Terms and conditions of financial assistance extended by this new credit system would be established by the appropriate Regional Rural Development Credit Bank or District Agency subject to the rules and regulations of the Federal Rural Development Credit Agency and the policies of the Federal Rural Development Credit Board. Such terms and conditions may vary depending on the rural development purpose intended. The amount of security required to assure payment of principal and interest would be determined by the District Rural Development Credit Agency.

G. *Credit Insurance.*—Obligations of the new credit system could be insured by the U.S. Secretary of Agriculture, who could, also, insure or guarantee repayment of financial assistance extended by the system. Five million dollars is authorized to be appropriated as initial capital for a revolving fund to be used to provide such insurance. All the premiums charged for such insurance would be deposited in the fund. Such insurance by the Secretary of Agriculture would carry the full faith and credit of the United States.

H. *Financial Supervision, Examinations and Audits* of the new credit system would be performed by the Farm Credit Administration, on a reimbursable basis, and by the General Accounting Office.

I. *Tax Status.*—The Regional Rural Development Banks and their related agencies shall be subject to Federal, State and local taxes, both as relates to property and income from any obligations purchased, except for periods when the United States owns capital stock in the institution upon which a special Federal franchise tax must be paid by the institution.

J. *Purchase, Sale and Liability of Obligations.*—Each Regional Rural Development Credit Bank may purchase its own obligations and the obligations of any other such bank and may provide for the sale of obligations issued by it or issued jointly by it with one or more other regional banks. The Federal Rural Development Credit Agency would establish a sales agency to be used for the purchase and sale of these obligations. Long term obligations of the Regional Banks would be limited to twenty times the capital and surplus of all the Regional Banks. Each Regional Bank would be liable on its own obligations and for interest payments on joint obligations of other Regional Banks.

K. *Interest Rates on Financial Assistance* provided by this credit system would reflect the cost of money in the central money markets of the Nation plus losses, operating expenses, and the cost of loan processing and servicing.

L. *Loan Application Process.*—After a determination has been made that an applicant has been unable, within a reasonable time, to obtain needed financial assistance from other private or public sources at rates and conditions required to contribute to the purposes of the Act, the applicant would submit his loan application directly to a local participating member of the new credit system, such as a local private bank or other financial institution or a local unit of government. If a

local financial institution or government unit is not available to make the loan to the potential borrower, the borrower may go directly to the nearest District Rural Development Credit Agency, or if need be, directly to the Regional Rural Development Credit Bank serving the area.

When the local private bank or other financial institution or local participating unit of government receives a rural development loan application from a potential borrower, the institution may make the loan out of its own funds, or it may take one of the following courses:

(a) Make the loan and obtain a guarantee of repayment of interest and principal from the District Agency; or

(b) Obtain mortgage insurance thereon from the District Agency; or

(c) Finance part of the loan and ask the District Agency in cooperation with other credit sources (public or private) to finance the rest on a participation basis; or

(d) Make the loan with an understanding that the District Agency will purchase the obligation paper involved; or

(e) Make the loan and discount it with the District Agency.

In any event, two things would be required in all cases where the financial assistance of the District Agency would be required:

First, the participant (the participating local financial institution or local unit of government) would be required to endorse the note and assume part of the risk;

Second, in every case where District Agency financial assistance was expected to be called upon, review and approval of the obligation in accordance with standards of the District Agency and with the district development plan would be required.

Loans or other financial assistance which the District Agency could not provide from its own resources would in turn be sold to, discounted or rediscounted with, or guaranteed or insured by, the Regional Rural Development Credit Bank.

The Regional Rural Development Credit Banks, using their accounts receivable along with capital, reserves and surplus, as collateral, would individually, or jointly with one or more other Regional Banks, sell debentures, bonds, or other obligations on the central and regional money markets of the Nation to obtain funds to use in making financial assistance available to borrowers through the District Rural Development Credit Agencies and the Participating Local Financial Institutions.

Section-by-Section Explanation

Subtitle A—Findings, Purposes, and Definitions

Sec. 101. Title and Findings and Purpose

This section makes findings with respect to the importance of farming and forestry and the need for improved community facilities and better employment opportunities. It is the purpose of this title to provide for the financing of these facilities and job opportunities. A Rural Development Banking System is needed to provide this financing.

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Sec. 102. Definitions

This section defines "Rural Development Credit System," "rural area," "rural development purpose," "local general government," "Regional Bank," "region," "Federal Board," "District Agency," "Participant," "Federal Agency," "Executive Director," "and financial assistance."

The term "rural area" is defined as all territory that is not within the outer boundary of any city having a population of 50,000 or more and adjacent territory that is not within a suburban area having a population density of more than one hundred persons per square mile.

In applying this definition, the Secretary of Agriculture will use data from the latest decennial census of the United States.

The term "rural development purpose" means any public or private project that will contribute to a balanced national growth policy and to the enhancement of any rural area as a place to live. The term specifically includes, but is not limited to, twelve kinds of projects which are listed.

The Rural Development Credit System consists of the following—

(1) A supervisory Federal Agency whose chief executive officer is called the Executive Director, and whose policy-making board is called the Federal Board;

(2) a Federal Rural Development Investment Incentives Administration to provide subsidies for rural development purposes; and

(3) the following institutions which will make loans for rural development purposes:

(a) Participants (also known as Participating Rural Development Financial Institutions) —Any local bank or other financial institution or any unit of local government, which is designated a participant under Subtitle F;

(b) District Agencies—Any financial agency of a multi-jurisdictional planning and development district of a State designated by the appropriate Regional Bank under Subtitle E.

(c) Ten Regional Banks established in Subtitle D.

SUBTITLE B.—FEDERAL RURAL DEVELOPMENT CREDIT BOARD

Sec. 201. The Federal Rural Development Credit Boards Organization and Compensation

(a) This section creates a Federal Rural Development Credit Board of 19 members. Fifteen members, each from a different state, would be appointed by the President with the advice and consent of the Senate. Not more than eight members can be from the same political party. In making appointments the President will attempt to provide fair representation of different geographic regions and economic interests. In addition, the representative of the Secretary of Agriculture on the Farm Credit Board, the Governor of the Farm Credit Administration, the Executive Director of the Federal Agency, and the Administrator of Federal Rural Development Investment Incentives Administration would be ex officio members.

(b) All members of the Federal Board would be citizens of the United States and not less than 12 appointed members would be residents of rural areas.

(c) The Federal Board would elect a chairman and vice chairman from among its members. The Federal Board would elect a Secretary from among its members or from outside its membership. These officers would be elected for one year terms.

(d) No appointed Federal Board member could be an officer or employee of the United States or any state or any of the institutions of the Rural Development Credit System or of the Farm Credit System.

(e) Appointed members of the Federal Board would serve for terms of six years, except for the first members appointed, who would be appointed for staggered terms of 6, 4, and 2 years. A person appointed to fill an unexpired term would serve only for the remainder of the term for which his predecessor was appointed.

(f) The Federal Board would establish its own rules of procedure, except that a majority of all members of the Board would constitute a quorum for the transaction of its business.

(g) Each appointed member would receive $200 a day for not more than 75 days of meetings each year. All members would be reimbursed for travel and reasonable expenses incurred in discharge of their official duties.

(h) The Federal Board would hold at least four regularly scheduled meetings a year. Special meetings would be held at the call of the chairman or of any three members of the Board.

Sec. 202. Powers of the Federal Boards

The Board would establish the general policy for all institutions of the Rural Development Credit System. It would function as a unit and it would not operate in an administrative capacity.

SUBTITLE C—FEDERAL RURAL DEVELOPMENT CREDIT AGENCY

Sec. 301. Federal Rural Development Credit Agency; Executive Director

This section establishes an independent agency to be known as the Federal Rural Development Credit Agency to be headed by an Executive Director and to be responsible for carrying out the programs provided for in this title.

Sec. 302. Appointment of Executive Director, Salary and Expense Allowance

The Executive Director is to be appointed with the advice and consent of the Senate, by the Federal Board, and he will serve at the pleasure of the Federal Board, except that during any period in which he holds stock in any Regional Rural Development Credit Bank his appointment shall be subject also to approval by the President and he shall serve at the pleasure of the President. His compensation would be fixed at the rate prescribed for positions in level IV of the Executive Pay Schedule which currently is $38,000 per annum.

Sec. 303. Compliance With Board Orders

The Executive Director would be responsible for carrying out the functions of the Federal Agency and the policies of the Federal Board. All acts of the Executive Director will be conclusively presumed to be in compliance with Board orders.

Sec. 304. Rural Development Credit Organization

The Executive Director is authorized to fix the powers and duties of the divisions of the Federal Agency and to appoint and employ personnel. He will provide on a reimbursable basis administrative management services to the Federal Board and the Federal Rural Development Investment Incentives Administration.

Sec. 305. Seal

This section provides for a seal of the Federal Rural Development Credit Agency to be adopted by the Executive Director and to be judicially noted.

Sec. 306. Administrative Expense

This section authorizes the Federal Agency to make necessary expenditures for proper administration of the Act.

Sec. 307. Allocation of Expenses

This section provides for the assessment of the institutions of the system for their appropriate share of the cost of administering this title. During the first five fiscal years of operation, appropriations would be authorized to augment such assessments. At the end of each fiscal year, the Federal Agency would re-determine the appropriate assessment for each institution and appropriate adjustments would be made.

Sec. 308. Enumerated Powers

This section enumerates the powers, functions, and responsibilities of the Federal Agency. In general they provide for the supervision and direction of the System. Some of the enumerated powers are:

(a) Modify the territory of the Regional Banks, subject to approval of the Federal Board and the President.

(b) Issue and modify Federal charters and designations of institutions of the System and approve changes in the names of banks operating under the Act.

(c) Approve the merger of Regional Banks.

(d) Make annual reports to the Congress on the condition of the Credit System and make recommendations for such legislative changes as are needed.

(e) Coordinate Regional Banks and approve standards of Regional Banks.

(f) Prescribe and review loan security requirements and prescribe which loans can be made only with prior approval.

(g) Approve the issuance of obligations of the institutions of the Credit System and execute consolidated obligations on behalf of the Regional Banks.

(h) Approve both interest rates paid by institutions of the System on their obligations and the interest rates these institutions charge their borrowers.

(i) Make investments in stock in the institutions of the Credit System and require the retirement of such stock.

(j) Regulate the relationships among institutions of the System.

(k) Provide services necessary for effective management of institutions of the System.

(l) Undertake research into rural development and the credit needs of rural areas and ways of meeting these needs.

(m) Provide information on the System to the general public and to investors.

(n) Provide protection of the assets of the institutions against losses caused by employees.

Section 309. Special Powers

(a) The Federal Agency is authorized special powers until there is no net out-migration of population from rural areas. These special powers are:

(1) to extend financial assistance with respect to the obligations of a State or local government to finance any rural development project;

(2) to extend financial assistance to States or local government to finance any rural development purpose;

(3) to extend financial assistance for the purpose of facilitating economic, physical, and social development in rural areas;

(4) to establish terms and conditions for the financial assistance extended.

(b) The Federal Agency will develop criteria to assure that projects assisted by it are not inconsistent with comprehensive planning of multijurisdictional planning and development districts and to assure that the projects will not disrupt other Federal programs.

(c) Financial assistance of the Federal Agency may not exceed the total capital cost of the project to be financed.

(d) The Federal Agency will determine the interest rate on financial assistance extended by it.

(e) This subsection will allow States and local governments who obtain a part of the cost of a project from another department or agency of the Federal Government and the remainder in the form of financial assistance from the Federal Agency, to charge against its debt limit only that part of the total that represents the loan. The Federal Agency would extend the full amount to the borrower, but would arrange with the other Federal department or agency to accept its commitment to pay directly to the Federal Agency the funds that are to be provided by the other department or agency. The borrower would execute an obligation to the Federal Agency only for that part of the total cost of the project that is not covered by the commitment of the other Federal Department or agency. The other department or agency is authorized to make the payment involved directly to the Federal Agency in lieu of paying it directly to the borrower.

(f) The Federal Agency is authorized to enter into multilateral contracts and agreements in order to encourage cooperation among local governments.

(g) The Federal Agency is authorized to impose charges for its services.

Section 310. Technical Assistance

This section authorizes the Federal Agency to provide technical assistance in a number of fields related to the Agency's activities. This assistance would be provided directly, or through agreements with other Federal and State agencies. In those cases where other Federal or State agencies are already conducting programs of technical assistance, the Federal Agency will utilize these existing programs. The Federal Agency is authorized to employ or contract for personnel in those fields which are not covered by existing programs of other Federal or State agencies.

The Federal Agency is authorized and required to provide to applicants for assistance under this title any necessary technical assistance, including assistance in planning to meet the requirements of environmental protection and multi-jurisdictional planning.

Section 311. Delegation of Duties and Powers to Institutions of the System

This section authorizes the Federal Agency to delegate to any Regional Bank such of its duties, powers, and authority as may be determined to be in the interest of effective administration. It authorizes the Regional Banks and other institutions of the Rural Development Credit system to accept such delegations and to redelegate such duties, powers and authority, in accordance with rules and regulations of the Federal Agency.

Section 312. Agreements for Sharing Losses

The Federal Agency is authorized to enter into agreements with the Regional Banks for sharing the gains and losses on loans or securities held therefor.

Section 313. Indirect Participation by Private Financial Sources

The Federal Agency is authorized, on behalf of Regional Banks and other institutions of the Rural Development Credit System, to issue bonds, debentures and other obligations; to buy and sell securities it has issued or guaranteed or whose mortgage it has insured or in which it has invested; to invest funds not needed in its financing operations; and to guarantee securities in which it has invested.

The Secretary of Agriculture would be authorized to guarantee the obligations of the Federal Agency. The Secretary will collect a reasonable fee for this guaranty and for the analysis of any obligation proposed to be issued by the Federal Agency. The full faith and credit of the United States is pledged to the payment of all amounts guaranteed under this subsection.

The Secretary may not guarantee payment of any obligation of the Federal Agency issued after the total amount of stock held by the Executive Director in the several Regional Banks is less than an amount equal to 50 per cent of the total outstanding obligations of the Regional Banks.

Section 314. Federal Insurance of Obligations to the Agency

The Secretary of Agriculture, upon application by the Federal Board, is authorized to insure any financial assistance extended by the Federal Agency. The Secretary is also authorized to make a commitment for the insurance of a loan prior to the date of its execution or disbursement, if it is determined that such loan meets all the applicable criteria of this Act.

The Secretary will prescribe the terms and conditions of the insurance under this section. Upon default by the borrower, the Secretary will provide for full payment to the Federal Agency of any unpaid principal and interest on an insured loan.

The Secretary is authorized to charge and collect premiums for insurance under this section. These premiums will be fixed at the lowest levels which the Secretary and the Board agree to be reasonable and sufficient to keep the insurance program in a sound position and maintain the revolving fund.

There is established a revolving fund to be used by the Secretary to carry out the insurance of financial assistance under this section and the guarantee of financial assistance under section 313(b). Moneys in the fund not needed for operating expenses or the payment of insurance may be invested in bonds or other obligations guaranteed by the United States.

Section 315. First Lien

The Federal Agency, the Regional Banks, and the District Agencies are each given the first lien on stock insured by them (except for such stock which is held by the Executive Director) for the payment of any liability of the stockholder to such bank or agency.

SUBTITLE D—REGIONAL RURAL DEVELOPMENT CREDIT BANKS

Section 401. Establishment; Title; Number

This section provides for the establishment of ten Regional Rural Development Credit Banks as Federally chartered instrumentalities of the United States subject to the policies of the Federal Board. Their charters may be modified by the Federal Agency in a manner not inconsistent with the provisions of this title.

To the maximum extent practicable, the jurisdictional territory of each Regional Bank will correspond to the rural areas of the uniform regions established by the President for the operation of Federal agencies. The headquarters of each Regional Bank will be located within the rural area which it serves. Although each Regional Bank is not required to maintain its headquarters in the headquarters city of the President's uniform region, each bank is required to maintain a liaison office in such city. The Board of any Regional Bank may establish such offices as are needed for the effective operation of the Bank's business. The territorial jurisdiction of any such office must include an entire multijurisdictional areawide general purpose planning and development district if it includes any part of such district. The headquarters of such an office must be located within the rural area served.

Section 402. Corporate Existence; General Corporate Powers

This section provides for the corporate powers of each regional rural development credit bank. The bill recites a number of general corporate powers which are necessary to the operation of the Regional Banks as corporate bodies. In addition to these usual corporate powers, this section gives the regional banks certain authorities over the District Agencies. The Regional Banks must approve the salary scale of the officers and employees of the District Agencies and the compensation of the Chief Executive Officer. Also, the Regional Bank will supervise the operation of the District Agencies. The appointment of the Chief Executive Officer of the District Agencies will be subject to the approval of the appropriate Regional Bank as long as the United States holds 33⅓ per cent or more of the capital stock of such District Agency.

The Regional Banks are authorized to delegate to District Agencies such functions as the Regional Banks may determine appropriate. The Regional Banks will require the District Agencies to endorse obligations which are presented to the Regional Bank for the purpose of obtaining financial assistance.

In order to enable the District Agencies to make financial assistance available, the Regional Banks will purchase non-voting capital stock in the District Agencies. This purchase of capital stock cannot exceed each District Agency's pro rata share of the capital stock of the Regional Bank held by the Executive Director on behalf of the United States.

This section authorizes the Regional Banks to borrow in the central money markets of the Nation and issue obligations individually or in concert with one or more other Regional Banks. The Regional Banks may accept deposits of securities or current funds from borrowers, participants, and District Agencies and pay interest on such funds.

The Regional Banks may participate in extending financial assistance with one or more other Regional Banks or with private banks and other financial institutions in rural areas.

The Regional Banks may conduct or contract for studies of lending and of rural development, provided that such studies do not duplicate research capability of Federal and State agencies located in the state that is served.

Section 403. Board of Directors

This section provides for a 12-member bipartisan Board of Directors for each Regional Bank. All members must be legal residents of the rural area within which the Bank is authorized to operate.

Different methods are provided for the appointment of the members of the Board of Directors, depending on the amount of stock held by the Executive Director. When the Executive Director holds two-thirds or more of the outstanding capital stock of the Regional Bank, nine Board members are approved by the Federal Board from a panel of at least 20 persons nominated by the Executive Director. The nominees cannot be officers or employees of the United States or any State government or of any institution of the Rural Development Credit System or the Farm Credit System. Three members of the Regional Bank Board will be approved by the Federal Board from a panel of five nominees elected by the holders of voting stock in the Regional Banks. These nominees will be subject to the same residence requirements and employment restrictions described in the preceding paragraphs of this section.

As the capital stock held by the Executive Director decreases, the number of Board members approved by the Federal Board from nominees of the Executive Director decreases. The number of nominees elected by the holders of voting stock increases.

When the Executive Director holds no capital stock in a Regional Bank, eleven members of the Regional Bank's Board of Directors will be approved by the Federal Board from a panel of at least 15 nominees elected by the stock holders of the Regional Bank. Only one member of the Regional Bank's Board of Directors will be approved by the Federal Board from a panel of at least three nominees named by the Executive Director.

The Board of Directors of each Regional Bank will elect from its own members a Chairman of the Board and it will select a President of the Bank, who will be an ex officio member of the Board.

The Board of Directors may approve such other officials and executive employees as are needed.

Members of the Board of Directors will receive $100 per day for the performance of their official duties. This compensation will not

be paid for more than 75 days in any calendar year. The members of the Board will also be reimbursed for necessary travel, subsistence, and other expenses incurred in the discharge of their official duties.

Section 404. Capitalization of the Regional Banks

This section authorizes the President of each Regional Bank to issue its prorata share of the amount of outstanding capital stock of the Rural Development Credit System as determined by the Federal Board. The Federal Board in making its determination will take into account the unmet need for credit for rural revitalization of the territory served by the Regional Bank. The Executive Director is authorized to purchase non-voting stock of any Regional Bank in the same amount that the Regional Bank is authorized to issue.

Section 405 Regional bank stock; value; shares; voting; dividends

This section provides for the issuance by the Bank of stock of various classes at a par value of $5 each.

The approval of the Federal Agency is required.

Voting stock of each Bank can be held only by District Agencies and Participants and borrowers which obtained financial assistance directly from the Bank Voting stock cannot be transferred, pledged, or hypothecated except as specifically authorized by this title. A District Agency may elect to receive nonvoting stock rather than voting stock.

The amount of capital stock in each Regional Bank is to be increased from time to time in such amount as may be necessary to permit the issue of additional shares to borrowers and Participants so that they may become eligible for financial assistance.

The Banks are authorized to issue nonvoting stock to the Executive Director of the Federal Agency and also to District Agencies, Participants, other rural financial institutions, and to borrowers directly from the Bank.

The earnings of the Regional Bank, determined in accordance with approved accounting principles and practices, are to be distributed—

(1) at rate of 10 percent of the net earnings for each year into the reserve fund of the bank until that fund equals 100 percent of the outstanding stock;

(2) not less than 10 percent of the net earnings into a capital surplus fund of the bank;

(3) the payment of a franchise tax as required by section 407 for any year in which stock is held by the Executive Director;

(4) not less than 10 percent of the net earnings towards the retirement of nonvoting stock and any other indebtedness of the Regional Bank held by the Executive Director;

(5) thereafter, the remaining net earnings may be paid as dividends on nonvoting stock held by persons other than the Executive Director, but at a rate not to exceed the average cost to the Regional Bank of funds obtained through the issuance of bonds, dividends, and other obligations; and

(6) the remaining net earnings shall be paid as dividends on voting stock as determined by the Bank's board of directors.

Provision is made authorizing the sale of nonvoting stock, or its conversion into voting stock, and for the sale of voting stock only to District Agencies and to Participants or borrowers who obtain financial assistance directly from the Regional Bank.

Nonvoting stock can be redeemed in accordance with a schedule of values set from time to time by the Regional Bank. When the District Agency, direct Participant, or direct borrower reduces its outstanding indebtedness to the Regional Bank, it may convert its voting stock into nonvoting stock or surrender it for redemption or for credit to extinguish its final indebtedness, in accordance with the rules of the Regional Bank.

Nonvoting stock held by the Executive Director may be retired at any time subject to the approval of the Federal Agency, and is required to be retired each year to the extent of available earnings as provided in subsection (e), item 4, of this section.

Section 406. Governing of Policies, Programs and Procedures of Regional Banks

This section requires the Federal Agency to establish and promulgate policies and regulations to govern the Regional Banks. Any Regional Bank, its Board of Directors, and its President, will be conclusively presumed to be acting in accordance with such policies and regulations.

As long as the Executive Director holds stock in the Regional Bank, the policies, program, and procedures of such Banks shall be subject to prior approval by the Federal Agency.

Section 407. Stock Purchased by Executive Director: Retirement; Franchise Tax

This section authorizes the Executive Director to purchase stock in any Regional Bank to help such Bank inaugurate lending operations or meet emergency credit needs of borrowers. The operations of the Regional Banks will be subject to audit by the General Accounting Office. The Executive Director will require the Bank to retire this stock whenever the Bank has resources available to do so and when the need for such investment is reduced or no longer exists. For as long as the Executive Director holds any stock in a Regional Bank, the Bank must, before declaring dividends, pay to the United States a franchise tax equal to the lower of (1) 25 percent of its net earnings, or (2) a rate of return based on the average annual rate of interest on all public debt issues of the United States and the number of days that stock is outstanding during the year.

Section 408. Subscription by the United States of Capital

This section authorizes the Executive Director to purchase stock of any Regional Bank on behalf of the United States.

Section 409. Power to Borrow, Issue Notes, Bonds, Debentures, and Other Obligations

This section authorizes the Regional Bank with the approval of the Executive Director to issue its own notes, bonds, debentures, or other obligations. With the approval of the Executive Director, it may join with any or all Regional Banks in borrowing or issuing consolidated obligations. In joining with other Regional Banks, each Bank will not exceed the limits to which it would be subject as an individual Bank.

Section 410. Aggregate of Obligations; Securities

This section limits the long-term obligations of the Regional Banks to 20 times the capital and surplus of all the Regional Banks primarily liable thereon, or such lesser amount as the Federal Agency shall establish by regulation.

Each Bank is to maintain free from any lien or other pledge, notes representing loans made under the authority of this Act, obligations of the United States, other readily marketable securities, or cash in an aggregate value equal to the total amount of long-term obligations for which the Bank is primarily liable.

Section 411. Liability of Regional Banks

Each Regional Bank would be liable on its own obligations and for interest payments on obligations of other Regional Banks. In addition, each such Bank would be primarily liable for the portion of any issue of consolidated obligations made on its behalf and jointly and separately liable for the payment of any additional sums when called upon by the Federal agency to make payments of interest or principal which any other Regional Bank primarily liable therefor is unable to make.

The United States will not be liable or assume any liability, either directly or indirectly on such obligations except as provided in Sections 313(b) and 314 of the Title.

Section 412. Finance Committee

This section provides for a Finance Committee composed of the Presidents of the Regional Rural Development Credit Banks to determine the amount, maturities, rates of interest, and participation by the several banks of each issue of joint or consolidated obligations.

Section 413. Bonds as Investments

Bonds and other similar obligations issued under the authority of this Act will be lawful investments for all fiduciary and trust funds and may be accepted as security for all public deposits.

Section 414. Purchase and Sale by Federal Reserve System

Obligations issued under this title may be bought and sold by any member of the Federal Reserve System; and (to the same extent and subject to the same limitations as are placed upon the purchase and sale of State, county, district and municipal bonds under section 14(b) of the Federal Reserve Act) by any Federal Reserve Bank.

Section 415. Purchase and Sale of Obligations

Each Regional Rural Development Credit Bank may purchase its own obligations and the obligations of any other such Regional Bank and may provide for the sale of obligations issued by it or issued jointly with one or more other such banks.

Section 416. Fiscal Agency

This section provides for a fiscal agency to be established by the Regional Rural Development Credit Banks to carry out such of their functions relating to the issuance, marketing and handling of obligations and flow of funds as may be required.

Section 417. Merger of Regional Banks

This section authorizes merger of Regional Banks upon approval of the majority of the stockholders of each Bank and the Federal Agency.

Section 418. Board of Directors for Merged Bank

In the event of a merger of two or more Regional Banks, a new Board of Directors will be created. This Board would be created in

accordance with the provisions of Section 403 and it would have all the powers, functions, and duties normally exercised by a Regional Bank Board.

Section 419. Voluntary Liquidation; Insolvency; Receiverships; and Conservators

This section prohibits any institution of the system from going into voluntary liquidation without the consent of the Federal Agency. The liquidation may proceed only in accordance with regulations prescribed by the Federal Agency.

Upon default of any obligations, a Regional Bank may be declared insolvent and placed in the hands of a conservator or receiver appointed by the Executive Director. Proceedings must be in accordance with regulations of the Federal Agency.

Section 420. Financial Assistance Provided

To provide adequate financial assistance to eligible borrowers, the Regional Banks are authorized to—

(1) extend to District Agencies and through them to participators and cooperators assistance in financing any rural development purpose project in the rural area served by the Regional Bank;

(2) extend financial assistance either through District Agencies, Participants, and cooperators or directly to persons engaged in the construction or improvement of rural development purpose projects for eligible borrowers;

(3) to provide or assist a District Agency or Participant in providing insurance to protect a borrower for a rural development purpose project against damage or casualty loss;

(4) require that District Agencies maintain ownership of stock in the Regional Banks equal to not less than $5 and not more than $10 per $100 of outstanding financial assistance provided them by Regional Banks.

Section 421. Interest Rates and Other Charges

Financial assistance by the Regional Banks shall bear interest and be on such terms and conditions as may be determined by the Board of Directors of the Bank, it being the objective to provide such financing at the lowest reasonable cost on a sound business basis, so that borrowers may make their maximum contributions to improving the rural area served. The Board of Directors shall also take into account the cost of money, the necessary reserves, capital surplus, and expenses of the Regional Bank, the orderly retirement of capital subscriptions of the United States, and the cost of providing services. Interest rates on a loan may be varied from time to time during the repayment period in accordance with the rates of interest currently being charged by the Bank.

Section 422. Eligibility for Financial Assistance

This section lists 20 persons or entities which are eligible for assistance under the Act. Financial assistance is conditioned upon—

(1) review of the proposed project by the governing body of the multi-jurisdictional areawide general purpose planning and development district, if any, and certification by such body that the proposed project is not inconsistent with the current areawide general purpose development plan of such district;

(2) determination that the applicant has been unable within a reasonable time to obtain needed financial assistance from other private or public sources at rates and conditions required to contribute to the purposes of this Act;

(3) that the applicant can meet the principal and interest payments to be specified in the loan agreement taking into consideration available grants in aid;

(4) determination that the project will be located in and operate primarily in a rural area and that the proposed project promises to make a net increase in the number of jobs, quality of life, or median family income of the rural area served;

(5) determination that the project will not be used for the purpose of engaging in sectarian, religious, or partisan political activities; and

(6) determination that the proposed undertaking is not inconsistent with laws or regulations protecting the quality of the environment.

Section 423. Security

In extending financial assistance the Regional Banks will require the best available security of the beneficiary, and the Bank will require the endorsement of the appropriate District Agency. However, in determining repayment ability of the applicant, the Regional Banks may consider factors other than the ratio between the amount of the loan and the applicant's security value.

Section 424. Services Related to Borrower's Operations

The regional banks are authorized to provide technical assistance or funds to obtain technical assistance to district agencies, participants and other financial institutions or to borrowers and applicants for loans in rural areas.

Section 425. Financial Assistance Through Agencies, Participants, or Cooperators

The Regional Banks will make financial assistance available through District Agencies, Participants, or Cooperators in the area served by the Bank. If no District Agency or Participant is available in the area, the Regional Bank may extend financial assistance through such bank, trust company, savings, or other financial institution as it may designate or it may make the loan directly to the borrower. If the loan is made directly to the borrower, such borrower must purchase the stock of the Regional Bank in an amount not less than $6 and not more than $11 for each $100 of the loan proceeds.

Section 426. Eligibility of District Agencies and Participants

The Regional Banks will determine on the basis of an application the eligibility of any District Agency and any Participant to handle loans and serve as agents of the Regional Bank in accordance with criteria established by the Federal Agency. District Agencies which receive financial assistance from Regional Banks will be required to purchase bank stocks equivalent to five to ten percent of the amount of financial assistance received. Participants who receive financial assistance from Regional Banks will be required to purchase bank stocks equivalent to one per cent of the financial assistance received.

SUBTITLE E—DISTRICT RURAL DEVELOPMENT CREDIT AGENCIES

Section 501. Designations and Charters

Any financial subsidiary of any multi-jurisdictional, areawide, general purpose planning and development district of a state that has been officially designated as a clearing house agency under Office of Management and Budget Circular A–95 may apply to the appropriate Regional Bank for designation as a District Agency. This application must be approved by the Regional Bank and sent to the Executive Director, who makes recommendations to the Federal Board. Upon approval by the Federal Board, the applicant will be designated as a District Rural Development Credit Agency and chartered as an instrumentality of the United States. The Federal Board may for good cause deny any application for a charter.

The Executive Director will establish regulations governing any District Agency and will prescribe the initial amount of stock that the District Agency must purchase in the Regional Bank, and the territory within which the District Agency will operate. Upon recommendation of the appropriate Regional Bank, the Executive Director may modify the charter of any District Agency.

No application under this section will be approved unless the applicant agrees to subscribe to stock in the Regional Bank in such amount as may be required by such Bank.

Section 502. Governing Board

Each District Agency will have a governing Board of Directors whose number, terms, qualifications, and election would be in accordance with state law and its Federal charter. No member of the Board of Directors will be an employee of any institution of the Rural Development Credit System nor of the Farm Credit System, nor of the Federal government nor any State government. No Board member can within a year after he ceases to be a member of the Board be elected or designated a salaried employee of a District Agency.

Section 503. General Corporate Powers

This section recites the corporate powers of the District Agencies.

Section 504. Capital Stock, Classes of Stock, Transfer, Exchange; and Dividends

This section authorizes a District Agency to issue voting stock, non-voting stock, and provides for an equity reserve. It distinguishes between voting and non-voting stock and states the restrictions which apply to each. Each Participant or cooperator obtaining financial assistance from the District Agency will be required to purchase an amount of stock equal in value to one dollar for every one hundred dollars of financial assistance obtained.

Each Participant will require that its borrowers purchase an amount of stock equal to not less than $5 and not more than $10 per $100 of financial assistance obtained.

Each direct borrower from the District Agency will be required to purchase at the time the loan is made an amount of stock of the District Agency equal to not less than $6 per $100 of the amount of the loan and not more than $11 per $100 of the amount of the loan.

When a District Agency participates with a commercial bank or other financial institution, the requirement that the borrower owns stock shall apply only to the portion of the loan which involves the District Agency.

Section 505. Application of Earnings; Restoration of Capital Impairment, and Surplus Account

This section provides for the manner in which earnings in excess of operating expenses (including valuation reserves against loan assets) shall be applied to the restoration of capital impairment, establishment and maintenance of surplus accounts and stock participation or cash distributions. When the regional bank holds stock in a District Agency, the cash distribution shall be such percentage of earnings as will be determined under regulations of the regional bank.

Section 506. Loans, Participation; Other Financial Assistance; Terms; Conditions; Interest; Security

This section authorizes District Agencies to make loans for rural development purposes through Participants and cooperators or directly to borrowers. Interest rates, terms, conditions and security requirements of financial assistance authorized under this section will be prescribed by the board of directors of the District Agency and approved by the appropriate regional bank. In setting rates and charges on financial assistance, it will be the objective to provide credit as the lowest reasonable cost on a sound basis, taking into account the cost of money, necessary reserves and expenses of the Agency, and services provided borrowers and Participants.

Interest rates on loans may vary from time to time during the repayment period of the loan in accordance with the current rates being charged by the agency. The District Agency may provide for deferral for up to ten years of the initial annual repayment of principal and interest and it may authorize a continuing commitment of a line of credit to a borrower or participant.

The District Agency must make every effort to equitably allocate its assistance between potential types of users.

Section 507. Other Services

Each District Agency is authorized to provide technical assistance and financial related services to borrowers, applicants and participants.

SUBTITLE F—PARTICIPATING RURAL DEVELOPMENT FINANCIAL INSTITUTIONS AND UNITS OF LOCAL GENERAL GOVERNMENT

Any bank or other financial institution making loans in rural areas for rural development purposes and any county, municipality, or other unit of local general government will, upon application, be considered for designation as a participating rural development financial institution (hereinafter called a "Participant").

Section 602. Functions of Participants

Participants are authorized to—

(1) obtain from and extend financial assistance for, or on behalf of, District Agencies and Regional Banks; and

(2) to issue obligations for purchase by District Agencies or Regional Banks; and

(3) perform such other duties as the District Agency and Regional Bank may delegate.

The Participant will be required to provide from its own funds at least five percent of any loan made by it to any borrower.

Section 603. Endorsement by Participants

A Participant must endorse to the District Agency obligations which it sells to, insures or guarantees with or discounts with such District Agency. However, the participant will not be required to assume responsibility for the repayment of principal and interest represented by such obligations.

Section 604. Purchase of Capital Stock

The Participant must require borrowers to subscribe to an amount of capital stock equal to not less than five percent and not more than ten percent of the financial assistance extended by the District Agency. In addition, each Participant must maintain at all times a total ownership of capital stock which is equal to at least one percent of the amount of all loans and obligations it has obtained from the District Agency.

Any institutions listed in section 601 which qualify as Participants are authorized to purchase voting stock of District Agencies.

Any of the institutions listed in section 601 may qualify as "cooperators" by participating in any loan or other obligation on behalf of the District Agency or Regional Bank and the purchase of nonvoting stock equal to at least one percent of the loan or other obligation.

Cooperators will not be required to maintain voting stock ownership but they will be subject to all other rules, regulations and requirements provided for participants.

Section 605. Governance of Participants and Cooperators

This section provides for rules and regulations governing Participants and cooperators. The designation of any institution as a Participant may be canceled by the appropriate District Agency and this cancellation may be appealed to the appropriate Regional Bank. The decision of the board of directors of such Regional Bank will be final.

Section 606. Certificates of Participation

Each Participant will be issued a certificate which certifies that it has been designated as an official Participating Rural Development Financial Institution. Designation of Participants is subject to the approval of the Federal Board.

Section 607. Terms and Conditions

Terms and conditions under which assistance may be made available to borrowers by any Participant will be established by the District Agency concerned. Such terms and conditions may vary according to the rural development purpose for which the loan is to be used.

Section 608. Security

Participants will require borrowers to provide the best available collateral for financial assistance. Participants may consider demonstrated repayment ability in determining whether assistance should be approved. In determining the amount of security necessary, a Participant will take into consideration any grant or payment from the

Federal or State government, including any grant or payment for which the borrower may qualify and obtain under the provisions of this act.

Section 609. Rural Activity required

Only those financial institutions whose volume of loans in rural areas is more than one-half of the total volume of all its loans will be eligible to purchase voting stock of District Agencies or regional Banks.

SUBTITLE G—FEDERAL RURAL DEVELOPMENT INVESTMENT INCENTIVES ADMINISTRATION

Section 701. Findings and Policy

This section finds that incentive payments are needed for rural community development and declares it to be the policy of Congress to carry out a program of such payments.

Section 702. Incentives for Investment in Rural Development

This section provides for the establishment by the Federal Board of a Federal Rural Development Investment Incentives Administration, independent of the Federal Agency and Regional Banks, to carry out programs of interest supplements and capital augmentation payments.

Section 703. Administrator

The Rural Development Investment Incentives Administration would be headed by an Administrator appointed by the Federal Board with the approval of the President. He would serve at the pleasure of the Federal Board and the President. He would be compensated at level four of the executive pay schedule, which currently is $38,000 per annum.

Section 704. Rural Development Investment Supplements; Eligibility and amount

Any private or public entity that is operating a rural development project that is located within the area served by a District Agency that had a net loss in the population of its rural area within the most recent ten-year period for which data is available from the U.S. Bureau of the Census, and who cannot pay from projected earnings in any fiscal year the full amount of the annual interest on his loan, will be eligible to receive an interest supplement at the end of such fiscal year. This supplement will be equivalent to the amount by which the interest due exceeds the greater of (1) the amount which can be paid from project earnings, or (2) an interest payment calculated at an interest rate of two percent per annum.

To establish his eligibility for an interest supplement, the applicant is required to prove conclusively that—

(1) the project will make a substantial and definite contribution to the enhancement of the quality of life or increased income and employment in the rural area where located,

(2) the enterprise is operated according to principles of prudent and efficient management and will sustain a net loss if the full contractural interest rate is paid,

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(3) audited accounts demonstrate that the interest supplement applied for is not in excess of the amount for which the applicant is eligible,

(4) the project to be financed will not be in substantial direct competition with another project that is wholly financed by private enterprise.

No applicant will be eligible for an interest supplement unless his books of account are open at all times for inspection by appropriate authority.

Section 705. Rural Development Capital Augmentation Payments; Eligibility and Amount

Any public or private nonprofit entity who seeks to construct or operate a rural development project in an area served by a District Agency that had a net loss in the population of its rural area within the most recent ten-year period for which data is available from the U.S. Bureau of the Census will be eligible to apply for a rural development capital augmentation payment.

To establish eligibility for such payment, an applicant will be required to prove conclusively that—

(1) the project will make a substantial contribution to enhancement of the quality of life and increased income and employment in the rural area where located,

(2) the project for which the capital augmentation payment is requested was constructed or acquired in accordance with the principles of prudent and efficient management,

(3) that audited accounts demonstrate that the amount of payment applied for is not in excess of the amount for which the applicant is eligible,

(4) the project to be financed will not be in substantial direct competition with another such project which is wholly financed by private enterprise.

The amount of any rural development capital augmentation payment shall not exceed the amount by which—

(1) the cost of acquiring or constructing the project together with essential equipment and working capital exceeds

(2) the amount of principal and interest that can be amortized over the lifetime of the project by a prudent and efficient manager who will utilize the project to make a significant contribution to the attainment of the purposes of this title.

No applicant will be eligible for a rural development augmentation payment unless his books of account are open at all times for examination by appropriate authority.

Section 706. Examination of Books of Account

As a condition of approval of any application for financial assistance under this title, the applicant would be required to keep his books of account open at all times for examination by appropriate authority and by the General Accounting Office.

SUBTITLE H—GENERAL PROVISIONS

Section 801. Financial and Other Supervision

The Rural Development Credit System would be subject to the supervision of the Farm Credit Administration with respect to all

procedures relating to financial examinations, including audits; and would be subject to the supervision of the Administrator of the Rural Enterprise and Community Development Administration of the Department of Agriculture with respect to the appraisal of real and personal property for security purposes. Investigating, accounting and administrative auditing services of the Farm Credit Administration would be utilized on a reimbursable basis by the Federal Rural Development Investment Equalization Administration and by the Federal Rural Development Credit System.

Section 802. Examinations and Reports; Audits

This section provides for examinations and audits of the Rural Development Credit System by Farm Credit Administration examiners at such times as the Federal board may determine, but in no event will any such institution be examined and audited less than once a year. In addition, the Executive Director is authorized to require examinations and audits by independent certified accountants. The executive director or any institutions of the system may request credit examiners to make examinations of organizations to which the extension of financial assistance is contemplated or to which the delegation of authority is contemplated.

A report of each annual audit of the Rural Development Credit System will be made by the Farm Credit Administration through the Federal board to the President and to the Congress. Farm Credit Administration shall be reimbursed by the Federal agency for the cost of performing such audits. The Federal board will make a report to the Congress at the end of each calendar year, concerning the condition of economic growth in areas served by the board, the condition and experience of the regional banks and the Federal Rural Development Investment Incentives Administration and such recommendations for legislative actions as it deems necessary to improve the Rural Development Credit System. The Federal board may require the Federal Agency, the Regional Bank and the Federal Rural Development Investment Incentives Administration and the district agencies to submit to it similar annual reports.

Each institution of the Rural Development Credit System will be subject to audit by the General Accounting Office at such times and to such extent as the Comptroller General determines.

Section 803. Conditions of Other Banks and Lending Institutions

The Comptroller of the Currency is required, upon request of the Farm Credit Administration, to furnish for confidential and exclusive use of the Regional Banks such information as he may have available relating to the financial condition of national banks with which such institution of the system has made or contemplates making discounts, loans or delegations of power.

Section 804. Consent to the Availability of Reports and to Examinations

This section requires any organization seeking discount privileges or delegated powers from a Regional Bank to consent to examination by Farm Credit Administration examiners or, in the case of state banks, trust companies and saving associations, to permit state authorities to furnish reports for their examinations upon request of

the Farm Credit Administration. This information will be available only for the exclusive and confidential use of the regional banks.

Section 805. Reports on Conditions of Institutions Receiving Loans or Deposits or Redelegated Power

This section authorizes various agencies, upon request of the Farm Credit Administration, to furnish certain information to the Rural Development Credit System. This information (regarding the condition of any organization to which an institution of the System has made or contemplates making a loan or uses or contemplates using as a custodian of credit instruments, as a depository or to which it has or contemplates delegating powers) will be kept in confidence. The Federal Reserve Banks are also required to make their records available for audit.

Sec. 806. Jurisdiction.

Each institution of the Rural Development Credit System shall for the purposes of jurisdiction be deemed to be a citizen of the state, commonwealth or District of Columbia in which its principal office is located. United States District Courts are not to have jurisdiction over any local unit of government or any financial institution exercising delegated power under this title.

Sec. 807. State Legislation.

This section authorizes the Federal Agency to declare obligations or securities to be ineligible as collateral under this title where the state law applicable to such obligations provides insufficient protection in the event of default.

Sec. 808. Tax Status.

The Federal Board, the Federal Agency, the Regional Banks and the District Agencies will be subject to Federal, state and local taxes as provided in this section.

The real property and tangible personal property of such board, banks and agencies will be subject to Federal, state and local taxation to the same extent according to its value as similar property held by other persons.

The income from any obligations purchased by such Regional Bank or District Agency from any federal, state or local government or quasi-governmental body and the income from any obligations issued by such Regional Bank or District Agency will be subject to the same extent as the income of obligations of private corporations.

The Regional Banks will be subject to the franchise tax provided in section 407 (c) of this act.

Notwithstanding the foregoing provisions of this section, no Regional Bank or District Agency will be subject to Federal, state or local income taxes for any period in which capital stock in a regional bank is held by the executive director for the United States.

Sec. 809. Nature of Obligations.

All obligations issued by the Federal Agency or Regional Banks will be lawful investments for all fiduciaries. All obligations issued by the Rural Development Credit System pursuant to this title will be exempt from regulation by the Securities and Exchange Commission.

Sec. 810. Amendments to Other Laws.

This section amends Title 5 of the United States Code to place the executive director of the Federal Rural Development Credit Agency and the Administrator of the Federal Rural Development Investment Incentives Administration in level IV of the executive schedule, which currently is $38,000, and to place the deputy executive director of the Federal Rural Development Credit Agency at level V of the executive schedule, which is currently $36,000 per annum.

National banking associations are authorized to purchase the obligations of any Regional Rural Development Credit Bank or District Rural Development Credit Agency created by this title.

Section 811. Separability

This section provides that if any provision of this title is held invalid, the remainder of this title shall not be affected thereby.

Section 812. Reservation of Right to Amend or Repeal

This section reserves the right to alter, amend or repeal any provision of this title.

Section 813. Appropriations

There is authorized to be appropriated the following sums:

(1) to the Federal Agency not to exceed $200 million annually for not to exceed ten years for the purchase of capital stock of the Regional Banks;

(2) to the Federal Rural Development Investment Incentives Administration not to exceed $100 million annually for the incentives for rural development authorized under Subtitle G;

(3) to the Federal Agency not to exceed $26 million annually for expenditure, directly or by contract, for research and scientific study on rural development;

(4) to the Secretary of Agriculture $5 million as initial capital for the revolving fund;

(5) to the Secretary of Agriculture such sums as may be necessary to carry out his responsibility under this title;

(6) without fiscal year limitation, such additional sums as may be necessary to carry out the purposes of this title.

Title II—Amendments to the Consolidated Farmers Home Administration Act of 1961

SHORT EXPLANATION

Title II would amend the Consolidated Farmers Home Administration Act of 1961 to—

(1) rename it the Consolidated Farm and Rural Development Act (Sec. 901);

(2) authorize loans to acquire or establish small business enterprises in rural areas (Sec. 902);

(3) provide for appraisals on a market (rather than normal) value basis (Sec. 903);

(4) authorize loans for rural development projects (Sec. 904);

(5) prohibit loans (as well as grants) under section 306 of the 1961 Act that are inconsistent with a multijurisdictional plan and authorize reimbursement of multijurisdictional development

agencies and county and municipal governments for reviewing applications for financial assistance under section 306 (Sec. 905);

(6) extend the Secretary's authority to make grants under section 306 prior to the completion of the comprehensive plan to October 1, 1973 (Sec. 906);

(7) extend water and sewer planning grant authority to all community services and facilities and areawide development (in addition to sewers), and permit grants to agencies having authority to prepare comprehensive plans which are not "official" (Sec. 907);

(8) extend the definition of "rural areas" to exclude towns of more than 50,000 (instead of 5,500) and to all provisions of the act (Sec. 908);

(9) repeal the $4 million limit on loans and grants to any association under section 306(a) (Sec. 909);

(10) increase to $500 million (from $100 million) the amount of unsold loans which may be held in the Agricultural Credit Insurance Fund pending sale as insured loans (Sec. 910);

(11) create a Rural Development Insurance Fund with authority to borrow from the Treasury (similar to the Agricultural Credit Insurance Fund) for rural development loans (Sec. 911);

(12) subject the interest on all insured loans sold out of such fund to Federal income tax (Sec. 911);

(13) authorize (a) loans to finance business and employment and improve the economic and environmental climate in rural communities; (b) $50 million annually for 50 percent pollution abatement and control grants (Sec. 912);

(14) authorize loans to rural youths with or without farms or farm backgrounds for any purpose specified in section 312 (operating loans) and in addition to operate enterprises in connection with their participation in 4–H clubs or similar organizations (Sec. 913);

(15) authorize (a) loans to operate small business enterprises in rural areas and for pollution abatement and control; (b) $25 million annually for grants of up to 50 percent of the development cost of pollution abatement and control projects (Sec. 914);

(16) increase the operating loan limit from $35,000 to $50,000 (Sec. 915);

(17) authorize insurance of operating loans (Sec. 916);

(18) reorganize the Farmers Home Administration into a Farm Development Administration and a Rural Enterprise and Community Development Administration under an additional Assistant Secretary (Sec. 917);

(19) give the Secretary discretion to require bonds protecting against FHA employee fraud or dishonesty in lieu of "faithful performance" bonds which go to all duties of the employee (Sec. 918);

(20) repeal a provision requiring county committee approval of loans under sections 306, 314 (soil conservation districts), and 321(b)(2) (emergency loans to corporations and partnerships) (Sec. 919);

(21) provide for an interest rate on the new rural development loans (other than guaranteed loans or loans to public bodies or nonprofit associations for community facilities) based on the cost of money (Sec. 920);

(22) make it clear that the word "insure" covers the guarantee of a loan originated and serviced by another lender (Sec. 921);

(23) limit the guaranty on a guaranteed loan originated by another lender for rural development purposes (other than certain loans for community facilities) to 90 percent of the risk, and authorize the Secretary to make loans for such purposes only if no other lender is willing to make a guaranteed loan (Sec. 922); and

(24) give preference for water facility loans and grants to public agencies in rural communities of 5,500 or less suffering deterioration of an existing water supply (Sec. 923)

General Statement

A major keystone in rural development is the creation of additional jobs in order to halt the outmigration of individuals who cannot find employment in non-metropolitan areas.

The expansion of Farmers Home Administration loan and grant authorities to meet the needs of applicants who do not qualify for financial assistance from the Federal Rural Development Credit System provided in title I, is a multi-faceted effort to help accomplish the goal of bringing new industry to rural America, as well as upgrading the quality of life in the countryside.

The new loan purposes authorized in this title for the Farmers Home Administration, as the credit resource of last resort, will supplement the facilities of the borrower-owned Federal Rural Development Credit System, and complement the various programs now being offered by the Department of Agriculture to stimulate rural development in the form of loans and grants for basic water and sewer systems ($340 million programmed for fiscal 1973) and an extensive rural housing program (scheduled for $2.1 billion in expenditures for 1973).

New loan purposes. The Act authorizes a broad new array of loan and grant authorities covering the full range of credit services for business, commercial and industrial purposes, and for community facilities and services.

The new authority vested in the Farmers Home Administration would utilize the extensive delivery system of that agency to make this credit available at the local level.

The new authorities are stated in a very generalized form and the following are representative of the major new loan purposes authorized in the bill:

small business enterprise loans to rural residents;

loans to cooperatives, when unable to obtain needed credit from the bank for cooperatives;

loans for the processing, manufacturing, and finishing of products from raw materials;

loans for other rural community development projects, with rural community development being defined to include any project that contributes to the balanced national growth policy or the enhancement of rural communities as a place to live, to make a living, and to provide increased employment.

loans to young farmers and other young rural residents;

loans for pollution control and abatement.

Expanded geographical area.—The title expands the territory served by Farmers Home Administration from towns of 5,500 or less to areas outside cities with over 50,000 population and their immediate environs.

New grant availabilities.—The agency would be given new grant authority for pollution control and abatement grants. The bill authorizes up to $75 million annually for these grants which shall not exceed 50 percent of the development costs.

Amendments to existing authorities.—The Act would modify and amend existing law to permit FHA to improve its ongoing programs and to modernize its internal operations by: allowing real estate appraisals at market value rather than normal value; authorizing insured operating loans; increasing the limit on operating loans from $35,000 to $50,000; increasing the limit on new loans that may be held in the Agricultural Credit Insurance Fund from $100 million to $500 million; authorizing the Secretary to use fidelity bonds in place of faithful performance bonds; authorizing market interest rates on commercial loans, and five percent maximum rate on community facility loans; authorizing loan guarantees; providing that the loan guarantee be limited to 90 percent of the possible loss, and establishing an order of preferance prohibiting business and commercial loans being made from the insurance fund unless no other lender is willing to make the loan under a 90 percent guarantee.

Reorganization.—The bill establishes a new organizational structure for the administration of rural development programs consisting of an additional Assistant Secretary—for Rural Development Credit—who would oversee the functions of two new agency administrators, an Administrator for Farm Development, and an Administrator for Rural Enterprise and Community Development. The creation of two new agencies (replacing the existing Farmers Home Administration) will permit a higher degree of specialization.

Section-By-Section Explanation

Section 901. Title

The Consolidated Farmers Home Administration Act of 1961 is re-named the Consolidated Farm and Rural Development Act.

Section 902. Rural Enterprise Loans

For the purpose of providing residents with essential income. The Secretary of Agriculture is authorized to make or insure real estate loans to rural residents for the purpose of establishing in rural areas a small business enterprise. Loans under this provision would be subject to the limitation in Section 305 of the Consolidated Farmers Home Administration Act which states that no loan shall be made which will cause the unpaid indebtedness against the security to exceed $100,000, as well as other limitations in the Act.

Section 903. Appraisals

This section amends present legislation governing the appraisal of security property. Security properties are now appraised at "normal value", which is generally lower than "market value". The proposed legislation would allow the Farmers Home Administration to appraise farm land and other properties at their current market value rather than a "normal value" based on a lagging moving-average.

Section 904. Rural Community Development Projects

At present Section 306 of the Consolidated Farmers Home Administration Act authorizes the making or insuring of loans to associations, including corporations not operated for profit, and public and quasi-public agencies for a number of rural development activities, including shifts in land use, conservation, development, use and control of water, soil conservation practices, waste disposal facilities, and recreation developments. The proposed legislation would preserve the existing authorizations, and it would also authorize the Secretary to participate with other financial institutions in making these loans.

In addition, this section would extend the purposes for which loans could be made for any rural community development project, including those providing employment for, as well as those serving farmers, ranchers, farm tenants, farm laborers, and other rural residents. This section extends eligibility for loans to include public and private technical and vocational schools, cooperatives that are unable to obtain credit from the banks for cooperatives, and all other potential borrowers. The Secretary is authorized to furnish financial assistance or other aid in planning such projects. The amount of financial assistance provided under this section is to be specified in annual appropriation acts. Otherwise this section preserves authorizations and limitations of existing law.

Section 905. Planning Requirements

Existing authority now requires the Secretary to determine, before making any grant for a water or waste disposal project, that the project is not inconsistent with planned development under state, county, or municipal plans. Section 905 of the bill would extend this requirement to other rural community development projects and specifically requires that all proposed projects not be inconsistent with plans of multi-jurisdictional substate areawide general purpose planning and development agencies having jurisdiction over the area in which the proposed project is to be located.

Under present authority no grant may be made unless the Secretary determines that the rural area to be served will not decline in population below the population for which the project is designed. Section 905 amends this provision to state that the Secretary may approve the project if the area would not decline in population if such project is carried out.

This section also requires that no loan be made that is inconsistent with the plan of the multi-jurisdictional substate areawide general purpose planning and development agency having jurisdiction over the area in which the prepared project is to be located.

The Secretary is authorized to reimburse such agency or government for the cost of reviewing the proposed project for consistency with multiple purpose development plans for the area.

Section 906. Extension

This section extends for two years the authority of the Secretary to make community development grants in an area that does not yet have a completed multi-purpose development plan.

Section 907. Community Facility Grants

This section removes the requirement that the grants may be made only to public bodies and other agencies having authority to prepare

"official" comprehensive plans, thus enabling the Secretary to make grants to public bodies and other agencies without being limited in his determination by the ambiguity and potential controversy concerning the meaning of the term "official".

The section also expands purposes for which grants may be made to include "waste disposal, community services and facilities, and area wide development."

Section 908. Definitions

The term "rural areas" is defined as all territory that is not within the outer boundary of any city having a population of 50,000 or more and territory that is not within a suburban area having a population density of more than one hundred persons per square mile. The Secretary determines which areas are rural according to the latest decennial census. Special consideration will be given to areas that do not include a city having a population of more than 10,000.

The term "rural community development project" is defined as any project undertaken by private or industrial enterprise or by any unit of government authority, or any public works project or community facility or service that will contribute to the objectives of a balanced national growth policy as defined in Title IX of the Agricultural Act of 1970 and Section 702 of the Housing and Urban Development Act of 1970. In addition, rural community projects would mean any project which contributes to the enhancement of a rural community or rural area as a place to live and make a living. The term would specifically include, but is not limited to, projects for twelve purposes which are listed in Section 908 that would provide increased employment or income or directly benefit rural residents.

Section 909. Removal of Limitation on Grants and Indebtedness

This section eliminates the $4 million limitation on the indebtedness of, and grants, to any association.

Section 910. Expansion of Authorization

This section increases the limitation on the amount of loans which can be made from the agricultural credit insurance fund and held for resale from $100 million to $500 million. By raising from $100 million to $500 million the maximum amount of new unsold loans that can be held in the agricultural credit insurance fund at any time, the insured loan program of the Farmers Home Administration can be expanded and there will be sufficient authority to make insured loans for the additional purposes to be provided in this title.

Section 911. Rural Development Insurance Fund

This section would establish a new revolving fund called the "Rural Development Insurance Fund," referred to in the section as the "Insurance Fund," which would be used by the Secretary for the purposes of discharging his obligations in connection with rural development loans. These would include (1) loans locally originated and serviced by the guaranteed holder, (2) loans made by a local lender that are processed, insured, and serviced by the Secretary, and (3) loans made out of the Fund, sold, insured, and serviced by the Secretary.

The Secretary would utilize this fund only for the type of loans provided for by sections 304(b), 306(a)(1), 310A, 312(b), and the water system and waste disposal loans authorized by section 306(a)(1) prior to enactment of this bill.

The assets and liabilities of the Agricultural Credit Insurance Fund applicable to such water and waste disposal loans, would be transferred to the Insurance Fund. Such assets and liabilities, the proceeds of such assets, and loans guaranteed or insured under this subtitle would be subject to the provisions of this section and section 308. The cross-reference to section 308 would make it clear that all contracts of guarantee or insurance entered into by the Secretary for loans under this section, as well as contracts of guarantee or insurance heretofore or hereafter entered into by the Secretary for water and waste disposal loans under section 306(a)(1), are backed by the Insurance Fund and the full faith and credit of the United States.

If there should be insufficient moneys in the Insurance Fund to enable the Secretary to make loans, advances, and authorized expenditures out of the Insurance Fund, he would be authorized to borrow from the Secretary of the Treasury to replenish the Insurance Fund. The Secretary of the Treasury would be authorized and directed to purchase notes issued by the Secretary for such purpose, which notes would bear interest comparable to the cost of money to the Treasury for obligations having maturities comparable to the notes and to the loans authorized to be guaranteed or insured.

The Secretary would be required to deposit in the Insurance Fund all fees and charges collected by him for loan services, such as expenses for obtaining credit and property appraisal reports, and additional charges assessed for losses and administrative costs in connection with guaranteed or insured loans.

Subsection (g) would authorize the Secretary to use the Insurance Fund for the purpose of making and insuring loans authorized under this subtitle where there is reasonable assurance of being able to sell the loans without undue delay.

Subsection (g) would also authorize the Secretary to use the Insurance Fund (1) to make default payments to insured holders and payments to guaranteed holders in compliance with the terms of the guarantee contract; (2) to pay to insured holders interest accruing between the date of any prepayments made by the borrower and the date of transmittal to the holder; (3) to purchase notes and bonds in accordance with repurchase agreements contained in contracts of insurance entered into by the Secretary in connection with loans under this subtitle, including loans transferred to the Insurance Fund; (4) to pay the cost of the Secretary's administration in connection with these loan programs; and (5) to make other expenditures and advances, such as payment of taxes, insurance, prior liens, fiscal adjustments, credit reports, property appraisals, and other expenses and advances to protect security for insured loans, and for guaranteed loans after or in connection with the Secretary's acquisition of guaranteed loans or security, and to acquire security property at foreclosure sale or otherwise.

The Secretary would also be authorized to use the Insurance Fund to make supplementary payments to holders of insured (but not guaranteed) loans in amounts sufficient to make the notes or bonds marketable at par.

Section 912. Insured Rural Industrialization Loans

This section authorizes the Secretary to guarantee, to insure, or to make for the purpose of financing business, industry, and employment and improving the economic and environmental climate in rural communities, including pollution abatement and control.

The Secretary is authorized to make grants of up to $50,000,000 annually for pollution abatement and control projects. No such grant may exceed 50 per cent of the development cost of the project.

Applications for loans under this section are excepted from requirements of county committee review.

Section 913. Young Farmers' Loans

This section would—

(1) authorize operating loans to rural youths to enable them to establish or expand an enterprise being carried on as part of their participation in 4-H Clubs, Future Farmers of America and similar organizations, and for the purposes specified in Section 312 of the Act;

(2) provide that a minor signing a note for such loan would incur full personal liability; and

(3) provide that co-signers could be accepted to supply needed strength for a sound loan.

Section 914. Rural Enterprise Operating Loans

For the purpose of providing borrowers with essential income, this section authorizes the Secretary to make loans to residents of rural areas to operate small business enterprises.

It provides operating loans for small businesses to complement Section 902, which provides real estate loans for small businesses. Loans may be made for the purpose of pollution abatement and control. The Secretary is authorized to make grants of up to $25,000,000 annually for pollution abatement and control.

Section 915. Maximum Size

This section amends the Consolidated Farmers Home Administration Act to increase the maximum amount of operating loans from $35,000 to $50,000.

Section 916. Insured Operating Loans

Presently the operating loan program is funded by appropriations to the FHA direct loan account. This amendment would authorize the Farmers Home Administration to insure operating loans made by other creditors and make loans and sell them to private investors, thus shifting the funding of the program from appropriations to the private sector.

Section 917. Reorganization.

This section reorganizes the Department of Agriculture by establishing a Farm Development Administration and a Rural Enterprise and Community Development Administration to replace the Farmers Home Administration. Each Administration would have a different Administrator and both would be under the supervision and direction of an Assistant Secretary of Agriculture for Rural Development Credit. This Assistant Secretary would be in addition to the three Assistant Secretaries now authorized. (See also Section 1702 for other reorganization provisions). Both Administrators and the new Assistant Secretary would be appointed by the President and subject to Senate confirmation. The additional Assistant Secretary, like the other Assistant Secretaries, would be compensated at level IV of the Execu-

tive Schedule, which is currently $38,000. The two new Administrators would be compensated, as the existing Administrator now is, at level V of the Executive Schedule, which is currently $36,000.

Section 918. Fidelity Bonds

This section gives the Secretary discretionary authority to require a fidelity bond of employees of the Farmers Home Administration in lieu of a faithful performance of duty bond. A faithful performance bond as defined in 6 U.S.C. 14(a) covers, in addition to proper accounting for all funds or property received by reason of the position of employment of the bonded employees, "all duties and responsibilities imposed upon such individual or individuals by law or by regulations issued pursuant to law." Thus county supervisors and assistant county supervisors under the terms of their faithful performance of duty bond as described by present law become virtual guarantors of of the correctness of all their official actions. This section would provide discretionary authority to require only fidelity bonds, which protect against fraud and dishonesty.

Section 919. Repeal of County Committee Approval Requirement for Association, District, and Emergency Loans

This section removes the requirement that the Secretary require the recommendation of county committees as to the approval of a Farmers Home Administration loan under section 306 (association loans), section 314 (soil conservation district loans), section 321(b)(2) (emergency loans to corporations or partnerships), and 310A Insured Rural Industrialization Loans. These sections are already excepted from the general requirement that the county committee certify as to the applicant's character, industry, ability and other eligibility requirements.

Section 920. Interest Rates on Rural Development Loans

The Secretary of Agriculture shall fix the interest rate on rural development loans (except for guaranteed loans, loans to public bodies or nonprofit associations for community facilities and operating loans for rural enterprises under section 312(b)) at a rate not less than the rate determined by the Secretary of the Treasury. This section does not apply to loans of a type authorized by Section 306(a)(1) prior to the enactment of this bill. It does apply to the new types of loans authorizied by section 304(b), 306(a)(1), or 310A. The Secretary of the Treasury would consider (1) the current average market yield on similar outstanding obligations of the United States; (2) the rates prevailing in the private market on similar loans, and (3) the effect of the Government's guarantee on the investor's risk, plus an additional charge to cover losses and cost of administration. The additional charge would be deposited in the Rural Development Insurance Fund. The prescribed rate would be adjusted to the nearest ⅛ of one per cent.

Section 921. Guarantee of Loans

This section defines the term "insure" as used in the Act to include guaranteed loans. To guarantee a loan means to guarantee the payment of a loan originated, held, and serviced by a private financial agency or other lender approved by the Secretary.

Section 922. Order of Preference, Extent of Guaranty

No rural development loan authorized by this title of the bill (except one to a public body or nonprofit association for community facilities) is to be made by the Secretary unless he determines that no other lender is willing to make a guaranteed loan and assume 10 per cent of any loss. This section is applicable only to the new loan authorities under the new sections 304(b), 310A, 312(b) and 312(c) and the new authority provided by amendments to section 306(a)(1). It would not be applicable to existing loan authorities under section 306(a)(1) or other sections of the law. The Secretary cannot assume more than 90 percent of any loss on a guaranteed loan.

Section 923. Priority for Certain Water Facility Loans and Grants

In making loans and grants for community water facilities, the Secretary must give highest priority to rural communities of not more than 5,500 in which an existing water supply system needs immediate action because of unanticipated deterioration or diminution of its water supply. The Secretary will utilize the Soil Conservation Service in rendering technical assistance to applicants.

Title III—Rural Revenue Sharing

SHORT EXPLANATION

This title authorizes the appropriation of $500 million annually to be apportioned on a formula basis among the States. Each State's share would then be further apportioned and granted as follows: (1) one-third would be apportioned and granted to multijurisdictional planning districts; (2) one-third would be apportioned and granted to counties for the benefit of the local governments therein; and (3) one-third would be retained by the State. The amounts granted would be used by the recipients for rural development, a rural area being, in general, the area outside cities of 50,000 or more.

GENERAL STATEMENT

The concept of the Federal government sharing revenue with State and local governments for rural community development purposes was first proposed by President Nixon in a Message to Congress on March 10, 1971 (page 74 of this report.)

The President proposed abolishing eleven categorical grant programs which were spending $921 million in fiscal 1971, adding $179 million in new money, and creating a pool of funds totaling $1.1 billion to be divided among the states for use in rural community development.

Title III provides for no change in existing categorical grant programs nor amendment of their authorizing legislation. It does authorize annual appropriations not to exceed $500 million for rural community development revenue sharing. The Committee intends that revenue sharing funds may be used selectively to expand existing, as well as to initiate new, rural development programs.

It was the consensus of the Committee that the present categorical programs which have been tried and proven should be maintained. However, the Committee did approve the concept of giving States,

districts, and local governments additional funds with more flexibility in determining how the money could be best spent for rural development purposes within their jurisdictions.

For example, revenue sharing is provided in this title for the protection, conservation, and development of the natural resources for improvement of rural areas and of rural community development under the leadership of local entities of government. Conservation districts under State district enabling legislation are assigned specific responsibilities for soil, water, and related resource development and, as eligible local instrumentalities of State government, may be authorized to utilize State, district, or local government revenue sharing funds as those entities may determine.

These rural revenue sharing funds may be used generally for any purpose which contributes to the enhancement of rural areas as a place to live, to make a living, and to provide increased employment. In addition, the funds may be used as the State, district, or local government's share of matching funds for other Federal-State formula or project grant programs.

This title provides for the apportionment of the revenue sharing funds among the States on the following basis: 40 percent on the State's rural population; 20 percent on the rural per capita income; and 40 percent on decrease in the State's rural population. Each State must pass one-third of the rural revenue sharing funds it receives on to substate multi-jurisdictional areawide general purpose planning and development districts that have been designated as clearing houses under Office of Management and Budget Circular A–95 and a like amount to local governments within the State.

The two-thirds thus passed on to districts and local governments would be apportioned within each State on the same formula basis as funds are apportioned among the States.

The monies provided under the revenue sharing authorization would be available to areas of any State, Puerto Rico, the Virgin Islands, American Samoa, and Guam which are outside the outer boundary of any city having a population of 50,000 or more and its immediately adjacent urbanized and urbanizing area with a population density of more than 100 persons per square mile.

In order to become eligible for funds each State must present to the Secretary of Agriculture a State rural development plan which will generally be a composite of rural development plans submitted by all multi-jurisdictional general purpose planning and development districts within the State.

Section-by-Section Explanation

STATEMENT OF FINDINGS AND PURPOSE

Sec. 1001 provides that Congress finds and declares that in order to provide more effective assistance to rural areas of the Nation for the purposes of stemming outmigration, stimulating and aiding economic development and the creation of job opportunities, providing more and better public works and community development facilities, and assisting in the solution of farm, home, and other community problems, it is necessary to establish a program by which States may share in Federal revenues.

Subtitle A—Definitions

Sec. 1002 provides that the definitions contained in the following subsections are applicable for the purposes of this Title.

Subsection (a) provides that the term "rural area" means territory within any State, Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, and Guam outside of any city having a population of 50,000 or more, and its immediately adjacent urbanized and urbanizing area with a population density of more than 100 persons per square mile.

Subsection (b) provides that the term "rural development" means any program or activity of a State, county, municipality, township, town, or multijurisdictional areawide planning and development district of a State which raise rural per capita income, directly increase employment or income or otherwise benefits the residents of a rural area, and that the term "rural community development prorgams and activities" includes, but is not limited to, the promotion, establishment, assistance, improvement, and encouragement of a greater number of programs and activities related to rural development.

Subsection (c) provides that the term "rural per capita income" means the average personal income of population of a rural area as defined by this title.

Subsection (d) provides that the term "fiscal year" means the fiscal year of the United States.

Subsection (e) provides that the word "Secretary" means the Secretary of Agriculture.

Subsection (f) provides that the word "State" means the several States, Puerto Rico, the Virgin Islands, and Guam.

Subsection (g) provides that the word "Governor" means the chief executive officer of each State.

Subsection (h) provides that the term "multijurisdictional areawide planning and development district" means an organized planning and development body composed of two or more counties, towns, townships, boroughs, municipalities, or a combination of any such governmental units established by or under state law and designated under OMB Circular A–95.

Subsection (i) provides that the term "Attorney General" means the Attorney General of the United States.

Subsection (j) provides that the term "personal income" means such term as defined by the Office of Business Economics of the Department of Commerce, or, as appropriately modified or changed by the Secretary.

Subsection (k) provides that the term "local government" means a municipality, county, parish, borough, or township as defined and used by the United States Bureau of the Census, but does not include independent school districts.

Subsection (l) provides that the term "development plan" means a plan for the expenditure of funds to which an eligible recipient is entitled under section 1102. The plan shall include various programs and activities and growth potentials of the rural areas.

Subsection (m) provides that the term "State rural development planning system" includes a State rural development planning advisory commission, comprised of the Governor and one representative from each district planning board within the State to advise the

Governor with respect to the formulation of the State rural development plan. Such planning boards shall be comprised of elected officials from local governments in rural areas within the district. The duties shall be determined by State law or the Governor under State law. Such multijurisdictional planning districts shall encompass the rural areas of entire geographic territory of the State.

DATA FOR DEFINITIONS

Sec. 1003(a) provides that, where appropriate, definitions in section 1002 shall be based on reports of the Department of Commerce or the Office of Management and Budget. The latest published data is to be used in applying these definitions.

Subtitle B—Rural Development Revenue Sharing

APPROPRIATION AUTHORIZATION

Sec. 1101 authorizes the appropriation for Subtitle B of sums without fiscal year limitation not to exceed $500,000,000 for each fiscal year.

APPORTIONMENT

Sec. 1102(a) provides that appropriations authorized by section 1101 shall be apportioned by the Secretary to the States in an amount equal to the sum of the amounts determined in paragraphs (A), (B), and (C).

Subparagraph (A) provides that each State shall be apportioned an amount equal to 40 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the population of the rural areas of such State and a denominator of which is the sum of the populations of the rural areas of all States.

Subparagraph (B) provides that each State shall be apportioned an amount equal to 20 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the average of per capita incomes of all the States less the rural per capita income of such State with the difference multiplied by the rural population of the State at the same point in time, and the denominator of which is the sum of the numerator of all States. However, if the rural per capita income of a State is greater than the average of the per capita incomes of all the States, the difference is considered zero.

Subparagraph (C) provides that each State is to be apportioned an amount equal to 40 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the numerical decrease of the population of the rural areas of such State (the Secretary is to take into consideration prior migration trends) and the denominator of which is the sum of the numerical decreases in the population of the rural areas of all States in which numerical decreases in the population of rural areas took place.

Section 1102(b) provides that one-third of the amount apportioned to each State under section 1102(a) shall be divided among the multijurisdictional areawide planning and development districts of such State so that each district will receive an amount equal to the sum of the amounts determined in paragrpahs (A), (B), and (C).

Subparagraph (A) provides that each district shall be apportioned

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an amount equal to 40 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the population of the rural areas of such district and the denominator of which is the sum of the populations of the rural areas of all districts.

Subparagraph (B) provides that each district shall be apprortioned an amount equal to 20 per centum of the total amount to be apportioned multipled by a fraction the numerator of which is the average per capita incomes of all the districts less the rural per capita income of such district with the difference multiplied by the rural population of the district at the same point in time, and the denominator of which is the sum of the numerator of all districts. However, if the rural per capital income of a district is greater than the average of the per capita incomes of all the districts, the difference is considered zero.

Subparagraph (C) provides that each district is to be apportioned an amount equal to 40 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the numerical decrease of the population of the rural areas of such district (the Secretary is to take into consideration prior migration trends) and the denominator of which is the sum of the numerical decreases in the population of the rural areas of all districts in which numerical decreases in the population of rural areas took place.

Section 1102(c) provides that one third of the amount apportioned to each State under section 1102(a) shall be divided among the local governments of such State so that each local government shall receive an appropriate share of the amount to which its county is entitled under paragraphs (A), (B), and (C).

Subparagraph (A) provides that each county (which shall include any similar subdivision of a State which is not divided into counties) shall be entitled to receive for the local governments therein an amount equal to 40 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the population of the rural areas of such county and the denominator of which is the sum of the populations of the rural areas of all counties.

Subparagraph (B) provides that each county shall be entitled to receive for the local governments therein an amount equal to 20 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the average per capita incomes of all the counties less the rural per capita income of such county with the difference multiplied by the rural population of the county at the same point in time and the denominator of which is the sum of the numerator of all counties. However, if the rural per capita income of a county is greater than the average of the per capita incomes of all the counties, the difference is considered zero.

Subparagraph (C) provides that each county shall be entitled to receive for the local governments therein an amount equal to 40 per centum of the total amount to be apportioned multiplied by a fraction the numerator of which is the numerical decrease of the population of the rural areas of such county (the Secretary is to take into consideration prior migration trends) and the denominator of which is the sum of the numerical decreases in the population of the rural areas of all counties in which numerical decreases in the population of rural areas took place.

Section 1102(d) provides that each State shall be entitled to one-third of the amount apportioned under section 1102(a).

Section 1102(e) provides that until the State, district, or county is authorized to receive funds and carry out activities as provided by this Act, or in the event it refuses to accept such funds, the funds to which it would have been entitled shall be available for allocation by the Secretary for the purposes of this subtitle.

Section 1102(f) provides that the computations and determinations by the Secretary shall be final and conclusive.

STATE RURAL DEVELOPMENT PLAN

Section 1103 provides that commencing with fiscal year 1973, as a condition precedent to receiving entitlements under section 1102, the Governor of each State shall publish and submit a State rural development plan to the Secretary of Agriculture, which shall be formulated through the State rural development planning system or an alternative rural development planning system which assures consultation and coordination with substate multijurisdictional planning and development district and local government. Amendments to such plan may be submitted prior to the end of the fiscal year to which such plan relates. Development plans and amendments thereto shall not be subject to approval by the Secretary. This section requires that such plans take into account the rural development plans prepared by districts and local governments.

Section 1104 provides that each State is authorized to expend its section 1102 entitlement moneys for rural development as defined in section 1002(b).

Subtitle C—Administration

PAYMENTS TO STATES, DISTRICTS, AND LOCAL GOVERNMENTS

Sec. 1201 provides that the Secretary shall make payments to each State agency at such intervals and in such installments as he shall determine.

RECORDS, AUDITS, AND REPORTS

Subsection (a) of section 1202 provides that revenues shared by the States, districts and counties are to be accounted for as Federal funds.

Subsection (b) provides that each state, district, and county must utilize proper disbursement and accounting procedures, maintain and provide the Secretary with access to books, documents, records, etc., and make such reports as the Secretary may require.

BALANCED GROWTH POLICY

Sec. 1203 provides that shared revenues shall be expended in accordance with the provisions of section 901(a) of title IX of the Agricultural Act of 1970. Public Law 91-524.

NONDISCRIMINATION

Sec. 1204 provides that shared revenues shall be considered as Federal financial assistance within the meaning of Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000Cd).

RECOVERY OF FUNDS

Subsection (a) of section 1205 provides that if the Secretary determines, after giving reasonable notice and opportunity for hearing, that a State has failed to comply substantially with the provisions of this title, he shall (1) refer the matter to the Attorney General for appropriate civil action; or (2) notify such State that if corrective action is not taken within 60 days of such notice that such State's revenue share will be reduced in the same or succeeding fiscal year by an amount equal to the funds which were not expended in accordance with the title's provisions; or (3) take such other action as may be provided by law.

Subsection (b) authorizes the Attorney General to seek appropriate court relief with respect to a matter referred to him under subsection (a).

Subsection (c) authorizes a State to file a petition in an appropriate U.S. Court of Appeals to review the Secretary's reduction of such State's revenue share pursuant to subsection (a), and provide rules of procedure and for Supreme Court review with respect to such petition.

POWERS OF THE SECRETARY

Sec. 1206 vests the Secretary with general administrative powers to carry out effectively the provisions of this title.

AGREEMENTS BETWEEN STATES, DISTRICTS, AND LOCAL GOVERNMENTS

Sec. 1207 gives Congressional consent to cooperation and agreements between States, districts, and local governments.

REPORT BY THE SECRETARY

Sec. 1208 requires the Secretary to make an annual report to the President and the Congress regarding the programs conducted under, and general effectiveness of, this title.

ADMINISTRATIVE EXPENSES

Sec. 1209 authorizes, without fiscal year limitation, such sums as may be necessary to administer this title.

LOCATION OF INSTALLATIONS

Sec. 1210 provides that all installations located, relocated, or constructed with shared revenues shall conform to section 901(b) of the Agricultural Act of 1970, Public Law 91–524.

LABOR STANDARDS

Sec. 1211 provides that the provisions of the Davis-Bacon Act, relating to the payment of prevailing wage rates, shall be applicable to certain projects assisted by shared revenues under this title.

RELOCATION COSTS

Sec. 1212 provides that no Federal relocation contribution in addition to shared revenues shall be provided to assist those displaced by community development activities under this title.

MATCHING GRANTS

Sec. 1213 provides that rural community development funds may be used by a State, multijurisdictional areawide planning and development district, or local government as matching shares for Federal grant programs which contribute to rural development.

EFFECTIVE DATE

Sec. 1214 provides that the effective date of this title shall be July 1, 1972.

TITLE IV—AMENDMENTS TO THE WATERSHED PROTECTION AND FLOOD PREVENTION ACT

SHORT EXPLANATION

This title would amend the Watershed Protection and Flood Prevention Act to—

(1) extend the definition of "works of improvement" to any undertaking for the conservation and proper utilization of land and permit cost-sharing therefor; (Section 1301 (a), (b) and (f))

(2) provide for up to ten year agreements under which the Secretary would share the cost of soil and water conservation practices on lands within the areas covered by watershed projects under that act or section 13 of the act of December 22, 1944; (Section 1301 (c))

(3) permit funds appropriated for other acts to be used in the acquisition of lands now required to be acquired by the local organization without cost to the Federal government; (Section 1301(d))

(4) authorize the Secretary to pay the cost of Indian lands needed for works of improvement thereon; (Section 1301(e))

(5) permit the Secretary to assume an appropriate part of the cost of installing any work of improvement applicable to water quality management; (Section 1301(f))

(6) permit the Secretary to pay up to 50 percent of the cost of storage for present municipal and industrial water demands; (Section 1301(g))

(7) require plans which include (a) features which may affect the public health, or (b) water pollution control measures, to be submitted to the Secretary of Health, Education and Welfare or the Administrator of the Environmental Protection Agency, respectively. (Section 1301(h))

GENERAL STATEMENT

Title IV would further broaden and increase the usefulness of the watershed program under Public Law 83–566. The watershed program has been a major force in meeting the water, land, and related resource needs in watersheds and in improving the economy of rural communities. There are two related areas in which the program can make a greater contribution toward meeting broad national needs. These are in dealing with problems relating to (1) rural development and (2) the total environment.

Title IV would amend the Watershed Protection and Flood Prevention Act (Public Law 83–566) as amended, to (1) authorize the Secretary of Agriculture to cost-share in watershed projects for needed measures planned and installed in cooperation with public agencies and local organizations that would restore, improve, and maintain the quality of the environment, and cost-share for reservoir storage for water quality management; (2) authorize the Secretary of Agricutlure to enter into long-term contracts with landowners and operators for making changes in cropping systems and land uses and for installing needed soil and water conservation practices in watershed projects; (3) authorize local organizations to use federal funds available to them, other than those appropriated for the purposes of the Watershed Protection and Flood Prevention Act, in acquisition of land, easements, and rights-of-way needed in connection with works of improvement in watershed projects; (4) authorize the Secretary of Agriculture to pay the cost of lands, easements, and rights-of-way needed for works of improvement to be installed on privately owned Indian lands; (5) authorize the Secretary of Agriculture to bear not to exceed one-half the cost of storage of water added to any reservoir constructed or modified under the Act to meet present demands for municipal, industrial, or rural development needs; and (6) modify the language in the Act with respect to assurances for repayment of costs of water supply for anticipated future needs by requiring a reasonable showing that there is an anticipated need for the water and that the local organization or an authorized state agency gives assurances satisfactory to the Secretary of Agriculture that the federal government will be reimbursed the cost of such water supply. Also included are provisions for coordination with the Administrator of the Environmental Protection Agency and the Secretary of Health, Education, and Welfare, respectively, on work plans which would include works of improvement for the prevention, control, and abatement of water pollution or which include features which may affect the public health.

Acquisition of Land Rights on Privately Owned Indian Lands.—In some states, Indian holdings are owned by private individuals although the Indians are under the jurisidiction of the Bureau of Indian Affairs, U.S. Department of the Interior. It is the policy of that Department that no Indian can convey an interest in rights to such land without being reimbursed. This requirement has hindered, or in some cases, prevented, the carrying out of needed project measures. Since this requirement stems from a federal agency policy, the Committee thinks it reasonable that the Secretary of Agriculture be authorized to pay for needed land, easements, and rights-of-way involving such privately owned Indian lands.

Long-term Contracting in Watersheds.—This amendment would authorize the Secretary of Agriculture to enter into agreements for periods of not to exceed ten years with landowners and operators to share the cost of carrying out conservation plans within watershed projects. It would result in accelerated and intensified application of practices and measures for erosion control and otherwise to conserve and develop the soil and water resources of farms, ranches, and other lands in project areas. It would assist in bringing about orderly community and resource development. Cost-sharing contracts between landowners and the Department of Agriculture, based on plans developed in cooperation with and approved by the soil and water conservation district involved, would assure application of planned measures on a definite time schedule. This arrangement would accelerate establishment of needed land treatment and speed up scheduling of structural works of improvement. Similar cost-sharing arrangements have already proved their effectiveness in the Great Plains Conservation Program administered by the Soil Conservation Service.

Municipal, Industrial, or Rural Community Water Supply

The Secretary of Agriculture would be authorized by this title to bear up to one half of the cost of the storage of water for present use, for municipal, industrial, or rural community water that may be provided in any reservoir structure constructed or modified under the provisions of Public Law 83–566. At the present time, local interests are required to bear the entire cost allocated to that purpose from sources other than funds appropriated under the Act.

An adequate, dependable supply of good quality water is basic to the stability and potential for growth of any rural community, town, or industry. Reservoirs with the amount of capacity authorized for inclusion in watershed projects can provide a dependable supply of water to meet the needs in rural America. Unfortunately, many rural communities lack sufficient funds and legal authority to provide the needed water supply facilities by themselves.

Broadening the authority of Public Law 83–566 to provide federal cost-sharing for water supply to rural communities can have a major impact in producing economic growth, providing jobs, and developing a more comfortable and better way of life in many town and country areas. In addition, improvement of the economy of these areas should help to reduce the migration of rural residents to already crowded urban centers. This amendment will do a great deal to increase the already large contribution of this program to rural community development.

STATUS OF WATERSHED PROGRAMS

The 1968 revision of the Soil and Water Conservation Needs Inventory shows over 19,000 upstream watershed areas with resource problems. About 8,900 containing over 726 million acres, or about one-third of all land in the United States and Puerto Rico, are considered feasible for project action at this time. As of March 1972, applications under Public Law 83–566 had been received on 2,937 watersheds. Planning assistance had been authorized on 1,643, and 1,059 projects—slightly under 12 percent of the potential—had been approved for operations.

The 5,788 floodwater-retarding and multipurpose dams, 6,646 miles of channel improvement, and other structural and land treatment measures already installed provide increasing benefits each year as they continue to function. They have upgraded the living conditions of many thousands of people by preventing an estimated $220 million in flood and sediment damages. The quality of downstream waters has been maintained or improved through soil conserving practices which keep an estimated 208 million tons of productive topsoil in place. In addition, about 15 million tons of sediment have been trapped in floodwater-retarding dams to date and thus removed from further travel downstream.

Equally important to rural residents are the water supply and recreational developments they have built into their projects. Some 78 communities and 464,300 people no longer have to worry about adequacy of municipal water supplies. Water-based recreation is a reality in terms of more than 5 million visitor-days of use on 94 lakes behind dams which also serve to hold floodwaters when needed. Most of these 94 lakes are ones on which the Soil Conservation Service has provided cost-sharing for recreation facilities. They do not include the hundreds of others where incidental recreation has developed in the sediment pools of floodwater-retarding structures.

The magnitude of the problem, much of which remains to be dealt with, is reflected in the following table:

LAND AND WATER RESOURCE PROBLEMS FEASIBLE FOR PROJECT ACTION

Problem	Projects (number)	Area (1,000 acres)	Estimated annual damage or potential benefits (millions)	Persons directly affected annually (millions)
Floodwater and sediment damage—Agricultural	7,973	65,738	$640	[1] 10
Floodwater and sediment damage—Urban	3,258	2,607	90	1
Erosion damage	5,198	39,490	34	----
Drainage	5,253	52,053	1,000	----
Irrigation	2,182	13,415	270	----
Rural water supply	2,900	----	----	----
Municipal and industrial water supply	2,800	----	----	21
Recreation and fish and wildlife	6,500	----	----	200
Water quality control	4,400	----	----	[2]

[1] Includes residential flooding only. In addition, 32,000 commercial establishments are directly affected, along with an undetermined number of industrial properties.
[2] Visitor days of annual use.

Note: About ¾ of the $1,[illegible]9,000,000 annual flood and sediment damage occurring in upstream areas is found in approximately 8,000 projects areas considered feasible for project action now. Installation of structural measures in these project areas is expected to provide protection to about 10,000,000 people.

Source: 1967 National Inventory of Conservation Needs, U.S. Department of Agriculture.

Section-by-Section Explanation

Section 1301 amends the Watershed Protection and Flood Prevention Act, as amended.

Subsection (a) amends section 1 of the Act to broaden its purposes to include the conservation and utilization of land, as well as the conservation, development, utilization and disposal of water. The inclusion of these purposes recognizes the interrelationship between land

and water resources, and will permit greater utilization of this Act in the enhancement of the quality of the environment.

Subsection (b) amends section 2 of the Act to include in the definition of "works of improvement" authorized to be included in plans, works of improvement for the conservation and proper utilization of land. This amendment is needed to assure that all authorities under the Act will be consonant with the broadened purposes of the Act.

Subsection (c) amends section 3 of the Act to authorize the Secretary to enter into long term agreements of not to exceed 10 years with landowners, operators, and occupiers in the development and carrying out of conservation plans in project areas which are needed to fully implement the land treatment aspects of work plans required by the Act. Such authority would also be extended to the eleven watershed improvement programs authorized by section 13 of the Flood Control Act of December 22, 1944. Provision is included which would permit the Secretary to preserve cropland, crop acreage, and allotment histories in connection with such agreements.

Subsection (d) amends the strict requirements of paragraph (1) of section 4 of the Act to permit local organizations in the furnishing of required lands, easements, and rights-of-way for projects to use Federal funds which otherwise could be made available to them under other Federal programs.

Subsection (e) also amends the strict requirements of paragraph (1) of section 4 with respect to the acquisition of lands, easements, and rights-of-way, and would permit the Secretary to pay from funds appropriated for purposes of the Act the cost of such lands, easements, and rights-of-way needed for project works of improvement which are located on privately owned Indian lands.

Subsection (f) amends clause (A) of paragraph (2) of section 4 to include works of improvement for water quality management as eligible for cost-sharing assistance by the Secretary. Such works of improvement currently may be included in plans, but are not eligible for cost-sharing assistance. It also adds as eligible for cost-sharing assistance works of improvement for the conservation and proper utilization of land, which is consistent with the broadened objectives of the Act.

Subsection (g) would authorize the Secretary to bear up to 50 percent of the cost of water storage included in any reservoir for present municipal and industrial use. It would also amend the Act to provide, with respect to future water supply, that the Secretary may also accept assurances of repayment by an authorized State agency, which assurances need not be supported by the immediate issuance of bonds or other obligations.

Subsection (h) amends subsection (4) of section 5 of the Act which presently provides interagency consultation on watershed work plans developed under the Act. In addition to consultations presently provided for, consonant with the broadened environmenatl and rural development purposes of the Act, plans which include features which will affect the public health will receive a review by the Secretary of Health, Education, and Welfare, and plans which include measures for the control and abatement of water pollution will receive the review of the Environmental Protection Agency.

TITLE V—AMENDMENTS TO THE BANKHEAD-JONES FARM TENANT ACT

SHORT EXPLANATION

This title would—

(1) amend the Bankhead-Jones Farm Tenant Act to authorize the Secretary to (i) pay up to 50 percent of the cost of storage of water in any reservoir constructed or modified under such act for present needs for rural community water supply and advance the cost of storage for future needs; and (ii) share in the cost of installing measures for water quality management, the control and abatement of agriculture-related pollution, the disposal of solid wastes, and the storage and withdrawal of water for rural fire protection; (Section 1401)

(2) require the Secretary to carry out a land inventory and monitoring program and issue a land inventory report at not less than five-year intervals. (Section 1402)

GENERAL STATEMENT

The Resource Conservation and Development Program, carried out in project areas in cooperation with federal, state, territorial, and other public agencies and local nonprofit organizations, assists local people to develop and carry out dynamic programs to improve the quality of life in rural America. Experience in the 98 projects authorized to date indicates that one of the more important ways of achieving national objectives for rural development is through installation of community facility-type measures that enhance the economic climate and environmental quality of project areas.

The U.S. Department of Agriculture during the past several years under the leadership of the Soil Conservation Service, and with assistance of a number of other federal, state, and local agencies updated the National Inventory of Soil and Water Conservation Needs. One phase of the inventory identified areas in which rural community water supply problems can be solved only by cooperative action through formal organizations having legal status to install and operate and maintain needed improvement measures. The inventory shows that project action is needed to provide adequate rural water supplies in nearly 5,600 areas of the United States and Puerto Rico. These are areas in which presently developed surface and ground water supplies are inadequate for present and future domestic water needs. Many of these areas are in resource conservation and development projects where one of the real significant keys to enhancement of the economy rests with the development of adequate water supplies to create a suitable environment for living, and in providing water supplies needed to hold and attract industry.

Under existing law the Secretary of Agriculture is not permitted to cost share for the development of rural water supplies with Resource Conservation and Development Program funds. The ability to provide such assistance would do much to advance the purpose of resource conservation and development projects: to conserve, use, and develop the natural resources of project areas in a way which will create employment opportunities and increase rural income. In addition, it would provide a greater incentive to local people to make a more

thorough evaluation of present and anticipated future water management needs for all purposes as they plan for the use of scarce reservoir sites. In many instances they are now inclined to plan for a single purpose, or at any rate less than full utilization of sites, without adequate consideration of present or long term community needs. Financial assistance for rural water supply development would put that purpose in a more favorable competitive status with other purposes including flood prevention, recreation and fish and wildlife for which federal financial assistance is now provided.

The National Environmental Policy Act of 1969 requires federal agencies to administer existing policies, regulations, and laws in the broadest sense possible to improve, maintain, and preserve the quality of the environment. Resource conservation and development project sponsors have identified many measures that are needed for the protection and enhancement of environmental quality in rural areas. They are measures which are recognized as being sorely needed by economic conditions and priorities for the use of local funds force sponsors to defer installation of many such measures. Legislation is needed to give the Secretary authorities so that he may provide technical and financial assistance for installing measures which can be clearly justified as environmental measures of concern to federal, state, and local public agencies. Expertise exists within the Department to provide this kind of assistance. Categories of environmental improvement measures requiring program assistance are:

a. *Water Quality Management.*—Federal financial assistance for water quality management is not now provided for in resource conservation and development projects but is authorized for mainstream developments under other federal programs. This proposal would remove this inconsistency and would provide for the maintenance of water quality beginning at the farthest upstream points where pollution may occur. Water retention reservoirs would release water during low stream, or other critical, flow periods to improve fish and aquatic habitat, reduce biodegradation, and reduce costs to water users downstream. This authorization will complement rather than run counter to the National policy to stop point pollution at its source.

b. *Disposal of Solid Wastes.*—Properly located, constructed, and operated sanitary landfills constitute an acceptable means of disposing of various solid waste materials. Well-designed landfills to meet community needs can be an asset and desirable addition to a water disposal and land utilization system. Care must be exercised in selection of soils suitable for landfills. Attention must be given to the possible pollution of ground water, and proper drainage must be afforded. This authorization will supplement and support the solid waste disposal program authorized by the Consolidated Farmers Home Administration Act of 1961, as amended.

c. *Control and Abatement of Agriculture-Related Pollution.*—Agricultural wastes and odors often contribute to pollution of the overall environment through contamination of air, water supplies, streams, and land areas. Such enterprises can be detrimental to proposed industrial and recreational developments in RC&D projects. Local interests may not be financially able to comply with environmental standards, if applied, and might otherwise have to go out of business.

To provide for continued operation of these facilities to the benefit of the community and not preclude development of component parts

of the resource conservation and development project, RC&D funds are needed to help finance relocation or modification, or to help with construction of lagoons, holding ponds, waste disposal recycling systems, or other projects.

The increased use of water resources, ever greater tonnages of waste products to be disposed of, a wide variety of lethal chemicals and pesticides and increased animal concentrations creating severe animal waste disposal problems require immediate attention if we are to reduce water pollution and develop effective means of recycling wastes back to the land, in a manner consistent with rather than deterimental to rural community development.

d. *Water Storage for Fire Protection.*—There are many needs and opportunities in resource conservation and development projects for communities to develop facilities for the storage of water for emergency uses. These include the need for supplies to provide fire protection for rural dwellings and buildings and natural resources including forest and rangelands. The need for such facilities has been recognized by resource conservation and development project sponsors in a large percentage of the areas where the program now operates.

Despite the widespread recognition of such need, local sponsoring organizations often are unable to follow through and install the measures. They are faced with hard choices on where their limited financial resources should be expended and often must place facilities for fire protection water supplies in a priority category below schools, roads, and other public facilities.

Authority permitting the inclusion of storage of water for rural fire protection as a measure eligible for RC&D financial assistance would be an added inducement to local people to install measures needed to protect capital investments and natural resources in rural areas. It would also encourage local people to incorporate storage for such purpose in other structures they are now installing for a single purpose or at less than full beneficial use of scarce reservoir sites. This provision will complement and support the fire protection program provided by Title VI.

Section 1401 authorizes the Secretary of Agriculture to promote rural community development by furnishing technical and cost-sharing assistance to eligible public agencies and local nonprofit organizations in planning and carrying out RC&D project plans for the following types of works of improvement.

(1) *Rural Community Water Supply.*—The amendment would provide for reservoir storage of water to include present and future water supply needs for rural communities. The public agency or organization would be required to pay not less than 50 percent of the cost of water storage to meet present needs and all of the cost of storage for anticipated future demands. The cost for storage to meet future demands could not exceed 30 percent of the total cost of the reservoir structure. Such agencies and organizations would need to present evidence that the capacity for future use will be used in a period of time permitting repayment of its cost within the life of the structure. An interest-free period would be provided for the costs of the future use capacity for a period of 10 years or until the capacity is first used, whichever occurs first.

(2) *Water Quality Management—Control and Abatement of Agriculture-Related Pollution, Disposal of Solid Waste Materials, and Storage*

of Water in Reservoirs, Farm Ponds, or Other Impoundments for Rural Fire Protection.—In addition to technical assistance needed for planning and installing such measures, the Secretary would be authorized to provide financial assistance in such proportionate share as he determines to be equitable in consideration of the national needs and assistance authorized for similar purposes under other federal programs. Works of improvement for water quality management would consist primarily of water storage capacity in reservoirs for regulation of streamflow and would be consistent with standards and regulations adopted by the Water Resources Council on federal cost sharing for water quality management.

The proposed legislation, by providing authority for assistance on water storage for rural community water supply, water quality management, and for rural fire protection purposes will provide a real incentive to local people to make a more thorough overall assessment of total community water management and should do much to encourage more comprehensive natural resource planning. In addition, it should expedite the installation of many highly desirable community-type measures identified in RC&D project plans but which are often deferred because of scarce resources in rural areas.

The provision of an authority to provide technical and financial assistance for the disposal of solid wastes will help to assure that sanitary landfills and other methods of solid waste disposal in rural areas are carried out in a manner that will fully recognize environmental values. This will result from a more careful selection of sites to consider soil, water, and land characteristics of sites. Care would be exercised that sites be so located as to preclude pollution of ground and surface waters, and with full recognition of scenic values.

Status of the Resource Conservation and Development Program (including rural renewal projects)

Program data as of February 29, 1972:	
Projects in planning	30
Projects in operations	68
Total authorized projects	98
Applications on hand	61
Budget estimate new starts for fiscal year 1973	20

In 65 projects authorized for operations as of June 30, 1971, sponsoring agencies had identified 9,296 specific actions (project measures) to be carried out to accomplish their objectives (e.g., flood prevention structure, recreation development, wood processing plants, facilities for disposal of solid wastes). Following is a summary of the status of those measures:

Status of project measures

	Number
Planning underway during fiscal year 1971	3,462
Being installed during fiscal year 1971	2,444
Completed and placed in operation during fiscal year 1971	1,141
Total active project measures during fiscal year 1971	7,047
Completed and placed in operation prior to fiscal year 1971	2,249
Total measures to date	9,296

It should be noted that local sponsors through fiscal year 1971 had completed and placed in operation 3,390 project measures. They are measures and facilities which have created new job opportunities,

increased project area incomes, and have enhanced environmental quality in project areas. They reflect the extent to which RC&D project sponsors have been able to carry out plans in a manner that has real impact on rural development. Following is more detailed information on the 7,047 measures that were active during fiscal year 1971.

TYPES OF MEASURES THAT WERE ACTIVE DURING FISCAL YEAR 1971

	Number	Percent
Active project measures:		
Accelerated services	825	11.7
Agricultural water management developments	314	4.5
Recreational developments	1,256	17.8
Wildlife developments	185	2.6
Watershed developments (Public Law 566)	294	4.2
Water developments (other than Public Law 566)	599	8.5
Land stabilization and critical areas	534	7.6
Special resource studies and inventories	435	6.2
Highways, roads, trails, scenic highways	344	4.8
Range improvement groups	79	1.1
Agriculture and wood-using industries	177	2.5
Other industries established	117	1.7
Public service facilities	706	10.0
Industrial parks and other developments	129	1.8
Rural water lines	238	3.3
Rural sewer lines	99	1.5
Beautification (special measures)	142	2.0
Educational measures	359	5.2
Other	215	3.0
Total	7,047	100.0

Note: The wide range of project measures being planned further illustrate the interest and ability of local people, given the proper type of encouragement and assistance, to carry out the full scope of measures that are so essential to meaningful rural development.

Section-by-Section Explanation

Sec. 1401 amends Section 32(e) of Title of the Bankhead-Jones Farm Tenant Act to broaden the authority of the Secretary to assist in the carrying out of local resource conservation and development and rural renewal plans developed in cooperation with Federal, State, local public agencies, and local non-profit organizations.

Subparagraph (1) authorizes the Secretary to assist in the development of storage of water for present or anticipated future demands or needs for rural community water supply. The cost of storage to meet future demands could not exceed 30 per centum of the total estimated cost of the reservoir structure, and the cooperating local public agency or local nonprofit organization with respect to such future demands would be required to give reasonable assurances, and there would have to be evidence, that demands for such water supply would be made within a period of time which would permit repayment of the cost of future water supply storage within the life of the reservoir structure. The public agency or local nonprofit agency would be required to pay not less than 50 per centum of the cost of the storage for present water supply needs, and to repay all of the costs of storage for future needs within the life of the structure, but in no event to exceed fifty years. No repayment for future needs would be required until such supply was first used. Interest would accrue from the time the future supply is first used, but in no event would the interest free period exceed ten years. The interest rate would be the average rate payable by the Treasury upon marketable public obligations outstanding at the

beginning of the fiscal year in which the first advancement on account of such water supply is made, which are neither due nor callable for redemption for fifteen years from date of issue.

Subparagraph (2) would authorize the Secretary to provide, in carrying out resource conservation and development and rural renewal plans authorized to be made under the Act, for the benefit of rural communities, technical and other assistance, including cost-sharing assistance, for the installation of measures and facilities for water quality management, for the control and abatement of agriculture-related pollution, for the disposal of solid wastes, and for storage of water in reservoirs, farm ponds and other impoundments, together with necessary withdrawal appurtenances, for rural fire protection. The cost-sharing assistance authorized for these measures and facilities would be that determined by the Secretary to be equitable in consideration of National needs, and assistance authorized for similar purposes under other Federal programs.

Section 1402 directs the Secretary to carry out a new program of land inventory and monitoring for guidance of community development for a balanced rural-urban growth, for identification of prime agriculture producing areas that should be protected, and for use in protecting the quality of the environment. Such program will include studies and surveys of erosion and sediment damages, floodplain identification and utilization, land use changes and trends, and the degradation of the environment resulting from improper use of soil, water, and related resources. The Secretary would be required to issue land inventory reports at intervals of not less than five years.

Title VI—Rural Community Fire Protection

SHORT EXPLANATION

This title authorizes the appropriation of $5 million for each of the fiscal years ending June 30, 1973, June 30, 1974, and June 30, 1975, to enable the Secretary of Agriculture to provide financial, technical, and other assistance to appropriate State officials in cooperative efforts to organize, train, and equip local forces to prevent, control, and suppress wildfires in rural areas and rural communities of 5,500 or less. Financial assistance could not exceed 50 percent of budgeted or actual expenditures, whichever was less.

GENERAL STATEMENT

Need for the Program

Many families in rural areas of America spend their lives knowing that the material basis for their existence are unprotected and vulnerable to man's oldest enemy—uncontrolled wildfire.

The hazards are real. Terrible losses in human life, livestock, wildlife, crops, manufacturing plants, industrial complexes, second-home communities, and other values are sustained each year. An estimated 1,000 lives are lost in rural fires annually. In 1968, farm property losses to wildfire were estimated at $227 million.

An estimated 48 million people, and property values totaling more than $200 billion, are virtually unprotected. An estimated 8.5 million acres of unprotected rural lands are burned over annually.

In many rural areas, outside larger communities, particularly in the open country, there is little if any organized capability to combat even the smallest wildfire emergency. Specifically, the need is for well-equipped, well-trained fire fighting crews throughout rural America, a need which has not been met in most non-forested areas.

Program Approach

This title is designed to set in motion a widespread increase in the firefighting capability of the citizens and communities of rural America. Financial incentives, technical, leadership, and organizational assistance will be made available for a three-year period to encourage local initiative and involvement.

The basic approach is to make Federal "matching funds" available to States and their rural communities, including Indian tribes. These funds could be used to purchase needed equipment and provide training for local firefighters.

Federal funds, up to 50 percent of the total costs of equipping, organizing, and training the local fire fighting groups, would be available to approved participants in communities having a population of 5,500 persons or less, not included in a standard metropolitan statistical area.

A report to Congress would be due within two years of enactment indicating whether or not the program is providing a catalyst and a momentum toward improved fire protection in rural areas.

Program Organization

The program would be coordinated closely with other Forest Service programs including: the Cooperative Forest Fire Control Program now operational in 50 States and Puerto Rico; a strong forest fire research program; forest fire prevention activities; technical assistance to other Federal agencies; and international leadership in wildfire protection compacts and mutual assistance agreements.

Forest Service experience with the States dates back to 1911. The rural fire protection program proposed in this Act would build on this time-tested teamwork established by the Forest Service, State Forestry agencies and local governmental and private forest owners.

Section by Section Explanation

Section 1501 sets forth the purpose and findings of the title, expressing a need to strengthen and synergize Federal, State, and local efforts to provide for adequate protection of rural natural resources, and of the lives and property of Rural Americans. It finds that inadequate organized wildfire protection is a deterrent to the revitalization of rural America. Further, it authorizes and directs the Secretary of Agriculture to provide financial, technical, and other assistance to State foresters or other appropriate State officials to organize, train, and equip local forces to prevent, control, and suppress the full range of wildfires that occur in rural areas and communities. The program authorized would be limited to areas and communities with a population of 5500 persons or less not included in a standard metropolitan statistical area.

Section 1502 provides that the program is authorized to be carried out in accordance with cooperative agreements between the Secretary of Agriculture and State officials. It authorizes the Secretary to share

fifty percent of the program costs. The calculation of the State share will include expenditures of local public and private non-profit organizations participating in program activities under an agreement. The Secretary may make payments to States on certification by State officials that expenditures provided for under agreements have been made.

Section 1503 requires the Secretary of Agriculture to report to the President within two years after the date of the title detailing the program's contribution toward achieving the purposes of this Title, along with recommendations regarding the program. The President is required to transmit the report to Congress.

Title VII—Rural Development and Small Farm Research and Education

SHORT EXPLANATION

This title authorizes the appropriation and apportionment of funds to States for (1) rural development extension programs; (2) rural development research; (3) rural development training; and (4) small farm extension, research and development programs. The purpose of the small farm programs would be to assist small farms to operate successfully as small farms, such as through the development and dissemination of information as to crops which can be produced profitably on small farms, rather than through encouraging such farms to become larger or encouraging the farmers to move off the farm.

Appropriation authorizations increase from a total of $50 million for fiscal 1974 to a total of $135 million for fiscal 1976 and subsequent years. Apportionment would be as follows:

(1) 4% to the Secretary of Agriculture for administration;

(2) 10% to be allocated by the Secretary to finance work serving two or more States;

(3) 20% equally among the States;

(4) 33% among the States on the basis of rural population as determined by the last preceding decennial census at the time each such additional sum is first appropriated; and

(5) 33% among the States on the basis of farm population, determined in a similar manner.

GENERAL STATEMENT

The objective of this title is to provide research, extension and training to insure successful programs of rural development. This title recognizes that development is a complex of processes in which the elements lead toward a greater social and economic well-being for rural people and their communities. It is further recognized that improvement in the utilization of resources are necessary to improve the income of rural people and increase the satisfactions people derive from the community in which they live. The Committee is convinced that rural developmental processes are complex and not well understood and that the full power of research, extension and training must be incorporated and be a part of the total effort to insure that the highest possible level of employment and quality of life in rural areas be achieved. It undergirds the development investment provided by other titles of the Act.

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The President's Task Force Report on Rural Development, A New Life for the Country, outlined the vital role of rural development in the national interest and well-being as follows:

> The fact that the immediate concern of rural development focuses on the 65 million people who live in nonmetropolitan America—and that the urgent challenge is to improve the opportunities for these people through private institutions, private initiative and government—does not alter the fact that the real goal is to benefit simultaneously the 140 million people who now live in metropolitan areas, and the millions more who will live there by the end of this century.
>
> If this is to be a happy and healthy Nation in the years ahead, our growing industry and our increasing population must spread out instead of continuing to pile people and industrial plants into compacted urban areas.
>
> It is in the rural countryside areas that we can find generous resources of clean air, clear water, living space, recreation, scenic beauty, transportation potential, tranquility and inspiration for tomorrow's people. And it is there that we can most readily and economically develop and preserve these natural resources in living harmony with man as our population expands in the generations ahead.

The research, extension and training programs authorized by this title are targeted specifically toward serving the special needs of both public and private agencies, units of government, business and others engaged in or contributing towards rural development. Emphasis is placed on research originating in any scientific field of any public or private college or university that bears on development and which contributes directly to solving practical problems of rural areas and rural communities as they initiate new programs, and new investments for development. Extension of information and knowledge bearing on development is likewise to be targeted on serving the public and private agencies, organizations, units of government, business and others involved in rural development.

Special training of administrative, professional, and technical personnel for unique public and private roles in rural development processes will fill a currently urgent need and enhance developmental capabilities of all organizations engaged in rural development. In-service training opportunities of students and others who may have special roles in various facets of programs is encouraged.

Specific attention to the special research and extension needs of family-sized farm and part-time small farm operations and their cooperative marketing organization is provided for in order to enhance their income opportunities and contributions to the development of their communities. The small farm provisions of this title contemplate a program along the lines of the Rural and Farm Family Rehabilitation Project, which has been operating in the State of Vermont for the past three years under the direction of the Cooperative Federal-State Extension Service, with funds supplied by the Rehabilitation Services Administration of the Department of Health, Education, and Welfare. The Vermont program had three principal objectives:

(1) to help farmers on public assistance to become self-supporting on their own farms;

(2) to provide technical assistance to improve practices on small farms so as to allow the farmers thereon to become eligible for FHA credit; and

(3) to prevent marginal farms from going bankrupt thus forcing their operators and their families to move into the cities where major adjustments in their lives are required to satisfy their basic needs and desires.

The project has proven very successful in achieving these objectives indicating that a nationwide program as provided under this Title of the bill could be patterned after the Vermont experiment and prove successful.

The committee believes it wise to build the thrust of this title on the long-standing relationship between the U.S. Department of Agriculture and the State Land-Grant Universities. The administrative structure for cooperative research and extension programs is already in place. Program development, program planning and evaluation and program audit techniques are well established. Procedures for interstate and regional efforts are viable and effective. The responsibility of the Secretary in directing a nationally coordinated system of rural development and small farm research and education can be quickly and effectively mobilized within this system through the State Land-Grant University. No new structure is needed to implement this title.

In addition, in order to maximize the use of all the State's research and educational resources in support of the statewide plan, the Land-Grant University is expected to invite specific inputs from other public and private colleges, area technical institutes and community colleges in support of the statewide plan. The special talents and resources in a number of fields including the professional schools of engineering should be utilized in rural development research and education.

Provision for a State Rural Development Advisory Council composed of a representative group of professional and lay leaders, including the head of a principal school of engineering, in each State insures that all the concerns and needs of the State with respect to rural development are identified. Further, the council is expected to advise on and approve potential programs of research and education and to review on a continuing basis the progress of these programs.

Section-by-Section Explanation

Section 1601 sets forth the purposes of title VII as the providing of essential knowledge necessary for successful programs of rural development, including:

the interpretation and application of information to practical problems and needs in rural development;

the providing of research and investigation in all fields that may contribute to rural development;

the providing of training to persons to serve in leadership, technical, and management positions concerned with rural development;

enhancing the capabilities of colleges and universities to perform public service roles in support of rural development;

expanded research on innovative approaches to small farm management and technology and extend training and technical assistance to smal farmers.

Section 1602 describes the extension, research, training, and development programs that the Secretary is authorized to conduct in cooperation and coordination with colleges and universities in carrying out the provisions of this Title.

Section 1603 authorizes appropriations beginning in fiscal year 1974 for programs as follows:

Fiscal year	Rural development extension program	Rural development research	Rural development training	Small farm extension research and development program
1974	25,000,000	10,000,000	5,000,000	10,000,000
1975	40,000,000	20,000,000	10,000,000	15,000,000
1976 and subsequent years	60,000,000	40,000,000	15,000,000	20,000,000

The formula to distribute these appropriations provides 4 percent to the Secretary for administration, coordination, and program assistance to States; 10 percent for payments to States to finance work serving two or more States; 20 percent equally to all States; 66 percent for payments to States of which one-half is on basis of rural population and one-half is on basis of farm population. Payment would be conditioned upon the Secretary's approval of annual State plans and budgets.

Section 1604 (a) requires a coordinated program in each State with responsibility for administration by the institution designated by the State to administer the Smith-Lever Extension program and Hatch Act Experiment Station program. (b) Requires that the university responsible for administering the programs in the State to designate officials responsible for specific programs and for the overall coordination of total program. (c) Requires the appointment of a State Rural Development Advisory Council composed of representatives of agriculture and engineering schools, farmers, business, governmental units, and federal agencies involved in rural development to review and approve annual program plans and advise on program matters.

Section 1605 requires that the program be mutually agreed upon by the Secretary and the university designated to administer the program.

Section 1606 provides procedure for withholding Federal funds.

Section 1607 defines rural development as "the planning, financing, and development of facilities and services in rural areas that contribute to making these areas desirable places in which to live and make private and business investments; the planning, development, and expansion of business and industry in rural areas to provide increased employment and income; the planning, development, conservation, and use of land, water, and other natural resources of rural areas to maintain or enhance the quality of the environment for people and business in rural areas; and processes and procedures that have said objectives as their major purposes."

Section 1608 authorizes the Secretary to issue regulations necessary to carry out the provisions of this title.

TITLE VIII—MISCELLANEOUS

SHORT EXPLANATION

This title would—

(1) prohibit financial assistance under the act which would result in the transfer of employment or production in excess of demand; (Sec. 1701)

(2) require the Secretary of Agriculture to coordinate rural development activities; (Sec. 1702)

(3) authorize ten year cost sharing payments under section 8(b) of the Soil Conservation and Domestic Allotment Act; (Sec. 1703)

(4) authorize cost sharing under such section 8(b) for agriculture-related pollution prevention or abatement practices unrelated to soil or water conservation. (Sec. 1704)

SECTION-BY-SECTION EXPLANATION

Sec. 1701. *Antipiracy.*—(a) Provides that no financial assistance shall be available under the Act which will result in the transfer of employment or business activity from one area to another, but this would not prohibit assistance to a new branch, affiliate, or subsidiary of an existing business, if such assistance would not result in an increase in unemployment in the area of the original location or any other area where the firm or a directly competing firm conducts business operations.

Financing would also be prohibited if establishment of the branch, affiliate, or subsidiary would result in closing down of operations of any of the borrower's existing business locations.

(b) Financial assistance would also be prohibited to any borrower whose entry into business would result in an increase in the production of goods, materials, or commodities, or the availability of services or facilities which would be in surplus supply in the intended area of location.

Sec. 1702. *Coordination of Rural Development Activities.*—(a) Amends section 520 (U.S.C. 2201) by requiring the Secretary of Agriculture to disseminate useful information on "rural development" as well as agriculture.

(b) Amends section 526 (7. U.S.C. 2204) by requiring the Secretary to procure and preserve all the information he can obtain with regard to "rural development" as well as agriculture.

The Secretary is also authorized and directed to provide leadership and coordination within the executive branch and assume responsibility for a nationwide rural development program utilizing all agencies of the executive branch.

The Secretary is required to establish employment, income, population, housing, and quality of community services and facilities goals for rural development and report annually to Congress.

The Secretary is authorized to initiate or expand research and development efforts related to rural water supply, rural sewage and solid waste management, rural housing, and rural industrialization.

(c) Directs the Secretary to utilize all USDA field offices and those of other executive agencies to enhance rural development activities.

Sec. 1703. *Long-Term Rural Environmental Protection Contracts.*—Amends subsection (b) of Section 8 of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590a) by authorizing the Secretary of Agriculture to enter into contracts with agricultural producers for periods not to exceed 10 years to carry out provisions of the Act. Specifically, this includes: preservation and improvement of soil fertility; promotion of economic use and conservation of land; diminution of wasteful uses of national soil resources; protection of rivers and harbors against results of soil erosion; and reestablishment of the ratio between the purchasing power of farmers and non-farmers.

Agreements between the Secretary and producers shall be based on conservation plans approved by the appropriate soil and water conservation district and may be modified or terminated by mutual consent if determined to be in the public interest. The Secretary may unilaterally terminate agreements if determined to be in the national interest and if producers are given reasonable notice.

The Secretary may not create long term obligations on behalf of the government in excess of such amounts as may be specified in annual appropriation Acts.

There are rural areas throughout the United States where the quality of the environment is impaired by severe air and water pollution resulting from wind and water erosion. Environmental problems in these areas need to be overcome through special programs to assist farm, ranch, or other land owners or operators to make, in orderly progression over a period of years, changes in their cropping systems and land uses along with the installation of soil and water conservation measures needed to control erosion, sedimentation, and other pollutants, including waste from domestic animals.

It is a matter of serious concern in these areas that pollutants are rapidly impairing the use and life of streams and lakes. Water quality has declined sharply and perpetual dredging is necessary to remove the pollution laden sediment load from rivers and harbors.

There is a continuing need for a special effort in these areas to protect land from erosion, to hold the rain drops where they fall, to promote the economic use of land, to retard storm water runoff from land, to control use of land, to control damaging floods, to protect estuaries being rendered unfit for recreation development, to enhance fish and wildlife and recreation resources and reduce or control erosion and sediment related pollution. An intensified program of soil erosion prevention, conservation, and land use adjustment is urgently needed.

To solve these environmental problems, section 1703 authorizes long-term contracts based on conservation plans approved by local soil and water conservation districts. These contracts, available throughout the entire nation, would be similar to those now available in ten States through the Great Plains Conservation Program.

During its 15 years of operation the Great Plains Conservation Program has proven to be a successful approach to improving the quality of the environment: It has protected and improved cropland, reduced wind and water erosion, improved rangeland, developed dependable water for livestock, stabilized income, saved scarce irrigation water, strengthened community economy, and made the Great Plains countryside more attractive.

In those areas of the Great Plains troubled by unusual agricultural hazards, including recurring prolonged and severe droughts, this authority has enabled thousands of farmers and ranchers to strengthen their operations and make Plains living more satisfying.

They have done this through federal cost-sharing and by getting high priority in technical help from professionally trained conservationists. This makes it possible for these farmers and ranchers, working through their local soil and water conservation districts, to develop and apply complete conservation plans on their operating units.

The land owner or operator develops a conservation plan suited to his land and to the kind of operation he desires. He works out a schedule for applying the plan, enters into a contract with the Secretary of Agriculture to apply all needed conservation work on the entire unit within 3 to 10 years, gets help from the professional conservation specialists as he needs it, and receives the federal share of the cost as he completes each conservation step.

Long-term Rural Environmental Protection Contracts hold a great potential for solving environmental problems in rural areas throughout the nation.

Sec. 1704. *Cost Sharing for Agriculture-Related Pollution Prevention and Abatement Measures.*—

This section would amend the Soil Conservation and Domestic Allotment Act to permit cost-sharing payments by the Secretary of Agriculture for agriculture-related pollution prevention and abatement measures. Under current provision of existing law there is federal money available for a pollution-abatement practice if the practice will also conserve soil and water. Section 1704 would authorize similar financial aid for pollution abatement practices which do not conserve soil or water.

For example, in several States smudge pots are one of the principal methods of protecting fruit and vegetable crops from frost damage. Growers burn a variety of materials such as old tires and cross ties to create the necessary heat—and along with that heat a severe air pollution problem is also created. Section 1704 would authorize cost-sharing so growers could convert to smokeless grove-heaters.

This section would also assist in cost-sharing to eliminate burning of slash and other wastes, crop residues, and water, air or land pollution from farm livestock, poultry barns and feedlots.

Clean air and water can no longer be taken for granted in rural America. The program provided by this section would help initiate new air, water and land anti-pollution measures and help solve the serious problem of preventing pollution from agricultural sources.

COST ESTIMATE

In accordance with section 252 of the Legislative Reorganization Act of 1970, the committee estimates the costs which would be incurred in carrying out the bill at about $5,200,000 for the current fiscal year; $620,160,000 for the fiscal year ending June 30, 1973; $909,160,000 for the fiscal year ending June 30, 1974; $1,135,660,000 for the fiscal year ending June 30, 1975; $1,338,660,000 for the fiscal year ending June 30, 1976; and $1,354,160,000 for the fiscal year ending June 30, 1977, as shown in the table set out below. No estimate of costs has been made by any Federal agency.

ESTIMATED COST (THOUSANDS OMITTED)—Continued

Item	Remainder of fiscal year 1972	Fiscal years — 1973	1974	1975	1976	1977
Title I:						
1. Administrative expenses, 1st 5 fiscal years of operation of Federal Rural Development Credit Agency (sec. 307(b))	500	1,000	2,000	2,500	1,500	0
2. Rural location incentive payments (subtitle G)	0	50,000	100,000	100,000	100,000	100,000
3. Subscription of capital stock in regional development banks	0	200,000	200,000	200,000	200,000	200,000
4. Technical assistance and research (sec. 310)	1,000	10,000	14,000	18,000	22,000	26,000
5. Initial capital for insurance and guarantee revolving funds (sec. 314 (d)(1))	0	5,000	0	0	0	0
6. Cost of administering insurance fund	20	60	60	60	60	60
Title II	0	25,000	50,000	75,000	75,000	75,000
Title III:						
7. Rural community development revenue sharing (title III)	0	200,000	300,000	400,000	500,000	500,000
Title IV (watershed amendments):						
8. Construction and operating costs and contract payments	2,500	12,000	17,000	23,000	28,000	37,000
Title V, R.C. & D. amendments:						
9. Construction and operating costs and contract payments	1,000	12,000	21,000	27,000	27,000	31,000
Title VI, rural community fire protection:						
10. Administrative expenses	0	210	210	210	0	0
11. Payments to States	0	4,790	4,790	4,790	0	0
Title VII, research and education:						
12. Extension (sec. 1602(a))	0	0	25,000	40,000	60,000	60,000
13. Research (sec. 1602(b))	0	0	10,000	20,000	40,000	40,000
14. Training (sec. 1602(c))	0	0	5,000	10,000	15,000	15,000
15. Small farms (sec. 1602(d))	0	0	10,000	15,000	20,000	20,000
Title IX:						
16. Reorganization (sec. 1702)	(100)	100	100	100	100	100
17. Environmental contracts (secs. 1703 and 1704)	0	100,000	150,000	200,000	250,000	250,000
Total	5,200	620,160	909,160	1,135,660	1,338,660	1,354,160

ROLLCALL VOTES

In accordance with section 133 of the Legislative Reorganization Act of 1946, it is announced that—

(1) The committee voted to report the measure by a vote of 13 to 1 as follows:

Yeas: Senators Talmadge, Eastland, Jordan of North Carolina, McGovern, Allen, Humphrey, Chiles, Miller, Aiken, Young, Curtis, Dole and Bellmon.

Nays: Senator Ellender

(2) An amendment to delete the provision for the establishment of a rural development credit banking system was defeated by a vote of 4 to 9 as follows:

Yeas: Senators Miller, Aiken, Curtis and Dole.

Nays: Senators Talmadge, Eastland, Jordan of North Carolina, McGovern, Allen, Humphrey, Chiles, Young and Bellmon.

(3) An amendment to strike the provision for a revenue sharing program for rural community development was disapproved 4 to 9 as follows:

Yeas: Senators Aiken, Young, Curtis and Dole.

Nays: Senators Talmadge, Eastland, Jordan of North Carolina, McGovern, Allen, Humphrey, Chiles, Miller and Bellmon.

(4) An amendment to limit the revenue sharing program for rural community development to $300 million per year was disapproved 6 to 7 as follows:

Yeas: Senators Miller, Aiken, Young, Curtis, Dole and Bellmon.

Nays: Senators Talmadge, Eastland, Jordan of North Carolina, McGovern, Allen, Humphrey and Chiles.

Departmental Views

Attached are the President's messages on Revenue Sharing and Rural Development, the reports of the Department of Agriculture on S. 2223, S. 2981, and S. 1560, and the reports of the Comptroller General and the Environmental Protection Agency on S. 2223.

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

PROPOSING A SYSTEM OF SPECIAL REVENUE SHARING FOR RURAL COMMUNITY DEVELOPMENT

MARCH 10, 1971.—Referred to the Committee of the Whole House on the State of the Union and ordered to be printed

To the Congress of the United States:

I am today proposing a new program of Rural Community Development through revenue sharing—the fourth of my six Special Revenue Sharing proposals. I have spoken of revenue sharing as a new partnership between the Federal Government and the State and local governments within our Federal system. The proposal I am advancing today would use that essential government partnership to strengthen an equally essential social and economic partnership between rural America, where the farms that feed us and the great open spaces that renew our spirit are found, and urban America, where the majority of our people and the greater share of our wealth are concentrated. Rural Americans deserve a full share in the Nation's prosperity and growth, just as urban Americans deserve cities that are livable and alive. Both objectives are attainable—and rural development revenue sharing, linked to urban development revenue sharing by the comprehensive planning proposal also put forward in this message, could be a giant step toward them.

RURAL AMERICA IN TRANSITION

Rural America begins with farm America. Agriculture was America's first industry, and it remains one of the keystones of our national economy today. It has made Americans the best-fed people in history,

and now exports the produce of one-fourth of its acreage to help feed the world. American farmers have led all sectors of the economy in annual increases in productivity for most of the years in this century. This Nation's farms are among our most efficient producers, and they are of central importance to a strong future for rural America.

Yet, there is sharp irony in this success. Ever more fruitful, American agriculture has required fewer people every year to produce food and fibers for our people, and to supply the expanding export market for our commodities abroad.

Hence the departure of people from the farms began to swell as farming grew more mechanized, efficient, and large-scale. Americans living on farms numbered more than 30,000,000 in 1940; today that figure is only about 10,000,000. Once the farm people had left their homes—often the homes of generations in their families—the opportunities often did not exist in rural America to keep them close to those roots. While some jobs began to open up in agricultural service, supply, and processing enterprises, usually known as "agri-business," the number of openings was not nearly enough to match the number of people cast adrift by technological progress.

Migration began toward where people thought opportunities existed—the cities. Not only were there more jobs in the cities, but they paid more. For most decades in this century, the gap between median income in the cities and that in nonmetropolitan areas has been wide. Even though income gains outside the metropolis have been almost half again as great as those in the cities during the last decade, median family income in non-metropolitan areas is still 22 percent below that in metropolitan areas.

While the people who have been leaving rural America by the millions have often improved their own and their families' situations by leaving, the trend they represent has had several disturbing effects.

First, in rural America itself, the loss in human resources has compounded the problems of diversifying the economy and fostering a vigorous and progressive community life. Those who have chosen to stay have found it harder and harder to pay for and provide services such as good schools, health facilities, transportation systems, and other infrastructure attractive enough to keep people *in* rural America, or to lure jobs and opportunity *to* rural America. Many of the small towns which dot the countryside have to struggle for existence; they often have difficulty attracting good school teachers or physicians; many fight stagnation while most of the economy is expanding; they cannot give the older, the disadvantaged, the less educated people needed assistance and care.

THE URBAN STAKE IN RURAL DEVELOPMENT

At the same time the urban effects of migration have been profound. While the explosive growth in the proportion of Americans living in cities has not been fed solely by the influx of people from rural America—immigration from other countries has also been massive—the millions who have moved from the South and the Midwest to the North and the West have been a major factor in

making a nation that was 75 percent rural a century ago, 73 percent urban today.

Many of these people pouring into the cities in search of opportunity have experienced difficulties in adapting to urban life and have required supportive services. Some made the transition successfully—but others have remained tax users rather than taxpayers.

Furthermore, the very size and density of many of our largest cities has produced new problems: whereas in the most rural areas it is hard to achieve economies of scale in public activities, the most heavily urban areas have grown far past the size range in which a community can function most economically. It often costs far more per capita to provide essential services, such as police protection, sanitation collection, and public transportation in our dense urban areas than in less congested smaller and medium-sized cities. Many of our cities have, in short, become inefficient and less and less governable. At times, this has led to near-paralysis of public services in our largest cities. Current trends indicate that unless there is a marked shift in public and private attitudes, the increase of population in and around our great metropolitan centers will continue, and the problems of urban management will be further aggravated.

In addition, by even conservative estimates, there will be some 75 million additional Americans by the end of the twentieth century. Whether this growth is beneficial or burdensome depends on our foresight in planning and preparing for it—a process that must begin now and must take a broader view than merely feeding the expansion of the megalopolis.

As never before, the Nation is beginning to see that urban America has a vital stake in the well-being and progress of rural America. This is one Nation, and for the good of all Americans we need one national policy of balanced growth.

FEDERAL RESOURCES FOR RURAL DEVELOPMENT

For the sake of balanced growth, therefore, but even more for the sake of the farmer and all his neighbors in rural America—first-class citizens who deserve to live in first-class communities—I am proposing that the Federal Government *re-think* America's rural development needs and *rededicate* itself to providing the resources and the creative leadership those needs demand.

It takes many different kinds of activities to create rural development—to create opportunity. One must start with the individual—his education, his skill training, and his health. Next the individual needs to be linked to resources and markets through transportation. Public sector infrastructure such as water and sewers is needed to encourage industry to locate in new areas. The environment is also becoming an increasingly important factor in industrial locations.

Essentially what I am proposing is to unite the funding for a number of programs operating directly in rural areas and smaller cities into a Rural Community Development Revenue Sharing Program, to add $179 million to that fund, and then to bolster this effort with new initiatives in critically related areas, such as health and welfare reform.

The following chart shows the programs which I propose to combine into the Rural Development Revenue Sharing Program:

Programs Combined Under Rural Development Revenue Sharing

General:

New Money $179 Million
1 Title V Regional Commissions
2 Appalachian Regional Commission
3 Economic Development Administration
4 Resource Conservation and Development Program

Education:

5 Cooperative Agricultural Extension Service

Water and Sewer:

6 Rural Water and Waste Disposal Grants

Environment:

7 Rural Environmental Assistance Program
8 Forestry Assistance Grants
9 Great Plains Agricultural Conservation Program
10 Water Bank Program
11 Tree Planting Grants

Altogether, the eleven programs listed above are spending $921 million in Fiscal 1971.

But much more is needed to extend to rural Americans the full share of national prosperity and the full participation in the rich benefits of our society, which they rightly deserve. Much more would be done if the Congress acts to set in motion the broad strategy for accelerated rural development which I have placed before it in recent weeks.

Rural communities throughout the nation would share in the $5 billion of General Revenue Sharing which I have proposed. Rural communities would receive direct assistance in building their human resources, their social services, and their economic base through my Special Revenue Sharing proposals for manpower, education, transportation and law enforcement. My proposals for improving our system of health care include Area Health Education Centers to be located in rural areas and financial incentives for doctors and providing medical care in scarcity areas. My welfare reform proposals would have immediate and dramatic effects on rural poverty: in the first year nearly $1 billion in new cash benefits would go into rural areas to add to the incomes of the millions of rural Americans who are poor or underemployed.

To unify and consolidate the rural development effort in each State—I am today proposing that the Federal Government establish a $1.1 billion fund to be shared among all the States for fully discretionary spending to meet their rural needs and accelerate their rural development. This would be accomplished by combining programs which I listed above into a new program of Special Revenue Sharing for Rural Community Development, and by increasing their present annual funding of $921 million by $179 million during the first year.

HOW REVENUE SHARING WORKS

Beginning January 1, 1972, these funds would be paid out to the States and to Puerto Rico, the Virgin Islands, and Guam, in regular installments on a formula basis, according to an index of need based on three factors: the State's rural population, the State's rural per capita income compared to the national average of per capita incomes, and the State's change in rural population compared to the change in population of all States. All 53 recipients would share equally in 1 percent of the funds. Every State would receive at least as much from Special Revenue Sharing for Rural Community Development, as it now receives from the eleven existing rural assistance programs combined.

This proposal recognizes that patterns of development potential vary widely within the different States and seldom conform neatly to intra-State governmental jurisdictions. It therefore imposes no Federally dictated distribution of shared revenues within the States. Neither would it require matching or maintenance of effort spending by a State in return for the shared rural development funds. Indeed the shared funds could if necessary be used to match other Federal grants-in-aid for rural assistance. But there would be a firm requirement that all rural community development funds be spent for the direct benefit of *rural people*. The funds could be spent for any of the purposes now authorized under the existing aid programs, including the option of direct grant assistance to private firms which locate in rural communities.

Rural areas would be defined in this Act as counties with a population density less than 100 people per square mile, and all other counties, regardless of population density, which are not included in one of the 247 Standard Metropolitan Statistical Areas (SMSAs) which the U.S. Census Bureau defines around cities of 50,000 or more.

I will also propose $100 million in additional non-formula funds for the Urban Community Development Special Revenue Sharing program, to assist those smaller cities of population between 20,000 and 50,000 which have been receiving grant assistance from the Department of Housing and Urban Development but which would not now be eligible for a formula share of Urban Community Development Revenue Sharing. The Secretary of Housing and Urban Development would administer this fund on a discretionary basis. Such communities would thus be eligible for funds from both the urban and rural revenue sharing programs—as they should be, since many communities of this size have not only urban problems and needs but also strong rural development potential as economic and social opportunity centers for nearby rural counties. The same overlap would be true as well of some of the smaller and less densely populated Standard Metropolitan Statistical Areas which have less than 100 people per square mile, and thus qualify for both formula grants under Urban Community Development Special Revenue Sharing, and use of funds from the Rural Community Development Special Revenue Sharing.

The Act would apply the requirements of Title VI of the Civil Rights Act of 1964 to prohibit discriminatory use of the Federal money.

BUILDING ON SUCCESS

Conversion of the existing categorical aid programs for agriculture and development into Special Revenue Sharing for Rural Community Development is a logical evolution in line with the history of these efforts and consistent with their basic purposes.

Over a number of years the Department of Agriculture has been moving to make its assistance to farmers and rural residents more effective and flexible by a steady process of decentralization. Placing these programs fully in the hands of the States is just one more step in sharpening their ability to deliver the services they were designed to provide. Whether the transfer will be beneficial and the transition smooth is a question to which the example of the Cooperative Extension Service may provide a partial answer. The States are ready to take charge of the Extension Service, which they already largely administer and which all States now fund above the present Federal contribution.

In the case of EDA, the Appalachian Regional Commission and the Title V Commissions, revenue sharing in superseding them would actually incorporate the coordinated development approach that has made them successful, at the same time it removed some of the Federal "fences" that may have restricted their activities unduly in the past. The grass roots planning process which has proved itself under the Appalachian Regional Commission is carried over into the statewide development plan I am now proposing for *all* States under rural and urban development revenue sharing. Close account would be taken of the human factor and of the continuity of on-going development efforts as the program transition is effected. Counties that have launched projects under the Appalachian Regional Commission, for example, would continue to receive adequate funding to make good on the money already obligated for such projects.

With revenue sharing, therefore, as with all change, there would be adjustments to make but great benefits to be gained. Every single activity now carried on under the Commissions and categorical programs could be continued in any State whose own people decide it is worth continuing. The farm, forest, and conservation programs that have succeeded in the past could go right on doing so—and freed of Federal restrictions, they could probably reach out farther and keep better pace with changing needs and technologies. In each instance the people of the State would make the decision.

STREAMLINING THE RURAL ASSISTANCE EFFORT

What Special Revenue Sharing for Rural Community Development *would* do is to remove many of the negative and inhibiting side effects which now plague rural assistance as a result of categorical narrowness, lack of coordination, and excessive Federal involvement. *By combining these programs we could produce a new whole significantly greater than the sum of the present parts.* It is worthwhile here to discuss some of the problems that would be eliminated—principally inflexibility, priority distortion and flawed accountability.

Inflexibility: As well-intentioned as past rural development efforts have been, strict Federal eligibility rules have often stood in the way of fair sharing of all the Federal resources for rural development, or

have made it difficult for States and localities to do what they must to attract industry and services. For instance, many parts of the Midwest, which experienced some of the heaviest rural outmigration in the Nation during the 1960's, still do not qualify for Economic Development Administration grants.

In other cases Federal standards have acted to bar aid from those communities in a region where it could do the most good. Experts in rural development feel that the most leverage is achieved by reinforcing healthy development trends, rather than fighting them—that is, by concentrating aid in these smaller and medium sized cities of a rural area which have shown strength and effort in attracting industry. Every area of rural America has such centers of potential growth. Using government assistance to strengthen their development trends could make the difference in attracting new job-producing industry and expanding employment opportunities for rural people living in the surrounding counties. It could also help these communities attract doctors, teachers and others whose services are so needed in or near rural areas. Yet current Federal program restrictions, by and large, do not permit aid to be used this way, because of a "worst-first" criterion which often puts funds into areas that lack the development potential to help either themselves or others near them—rather than using funds to open up new opportunities regionally so that benefits flow out to low-potential areas nearby.

Distortion of State Budgets: Narrow Federal project definitions can force States and localities to spend scarce revenues on "matching shares," urgent community priorities aside, or risk the loss of Federal funds. Once begun, a Federal project may demand additional local spending, beyond the matching money, for support facilities to tie the project into community usefulness.

Flawed Accountability: The quasi-governmental agencies which often exercise a determining influence on the conduct of these programs tend to obscure and fragment responsibility for decisions made and therefore to subvert the democratic accountability of elected officials. Regional commissions, comprised of a Federal Co-chairman and Governors from member States, take part in many program and planning decisions which really affect only one Governor's State. Too often the Federal officials responsible for rural assistance are geographically distant, and the local, State or multi-State institutions that have a say are politically insulated or remote.

THE STATEWIDE DEVELOPMENT PLAN

Special Revenue Sharing for Rural Community Development would be administered initially by the Secretary of Agriculture; eventually both this program and the urban community development program would come under the direction of the Department of Community Development whose formation I have proposed. In addition to paying out each year's rural development funds to the States and territories, the Secretary of Agriculture would stay abreast of rural development aspects of the statewide development plans which each Governor would file with him annually.

The statewide planning process which would help States and localities coordinate activities carried on under both urban and rural community development revenue sharing will be established in legislation

that I will submit shortly. It would require annual preparation of a comprehensive statewide development plan outlining spending intentions for programs in metropolitan, suburban, smaller city, and rural areas alike. The $100 million Planning and Management Assistance program which I proposed in my message to the Congress on Urban Community Development Revenue Sharing would provide funds which States and local jurisdictions could use in this planning process.

The Governor of each State would be given the responsibility for drawing up the statewide development plan. Formation of the plan would be based on a consultative process which considers plans submitted by State-established, multi-jurisdictional planning districts covering all areas of the State. Planning bodies of these districts would be composed of local elected officials. One member from each of the district planning bodies would sit on a panel which would assist the Governor in the planning process. The Secretaries of Housing and Urban Development and Agriculture could accept an alternative consultative process proposed by the State.

The completed plan would be filed with the Secretaries of Agriculture and of Housing and Urban Development—not for their approval, but as a declaration of intent; a Governor could amend his plan by letter during the course of a year.

The process of developing the statewide plan would focus official concern and public attention upon the inter-relationship of urban and rural community development within the State. The plan could identify potential growth areas, potential new community development sites, and environmentally important areas. It should seek to integrate all important community development factors, including land use.

All the money a State receives under Special Revenue Sharing for Rural Community Development would have to be spent for the benefit of persons in rural areas as outlined in the statewide plan. A State could of course also supplement its own rural development activities with money received under General Revenue Sharing and under other Special Revenue Sharing programs within program definitions. The Secretary of Agriculture would conduct an annual post-audit of State rural development activities, with payment of the next year's rural revenue sharing funds conditional upon State compliance with rural development spending plans for the year past.

THE LOGIC OF RURAL DEVELOPMENT REVENUE SHARING

To review briefly:

The major challenge facing rural America is to diversify its economy and to provide full opportunity for its people to enjoy the benefits of American life. Meeting this challenge will enhance the quality of life for those who remain to operate the nation's family farms and for all their neighbors in the small towns and countryside of America. As a secondary effect—like upstream watershed manage ent for downstream flood control—meeting the rural challenge will also help to relieve the overburdened urban structure by stemming rural outmigration and attracting a share of future growth to rural communities.

The key to a rural development strategy is my proposal for $1.1 billion in Special Revenue Sharing for Rural Community Development—money which all States and territories would share and which

they could spend in their rural areas as they deem wisest. Other proposed Federal assistance for rural America includes part of the $5 billion General Revenue Sharing program and part of five Special Revenue Sharing programs, as well as the benefits of a reformed welfare system and an improved health care system.

At the core of rural development revenue sharing would be eight agricultural grant programs and three broad development assistance programs now in being. Consolidating them, the revenue sharing approach would build on decentralizing trends in the agricultural programs and on the multi-State, State, and multi-county development planning experience accumulated under EDA and the regional commissions. It would do away with narrow aid categories, spending restrictions, duplication, and red tape now surrounding these programs. It would make the money now devoted to them go further and would provide more money.

Existing programs and development projects could continue or not at the discretion of each State, and the right of choice would rest close to the rural people at whom the aid is directed. A statewide planning requirement with a broadly representative input would promote coordinated development of a sort not now approached and would insure that all areas of the State have a voice in the planning process; but in no case could rural development revenue sharing money be diverted from rural needs.

URBAN-RURAL PARTNERSHIP

More money, plus more freedom to spend it, plus better planning in doing so, add up to better living for rural Americans and brighter futures for rural communities. Mutual benefits of the urban-rural partnership would be manifest as cities enjoyed the fruits of a healthy agricultural economy and the relief of more evenly distributed population growth, while rural areas felt the effect of new social and economic advantages. Rural and urban communities would no longer siphon off one another's strengths and resources nor shunt problems and burdens from one to the other. They would progress together in a dynamic balance, as partners in the best sense.

RICHARD NIXON.

THE WHITE HOUSE, *March 10, 1971.*

PROGRAM OF RURAL DEVELOPMENT

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING PROPOSALS FOR A PROGRAM OF RURAL DEVELOPMENT

FEBRUARY 1, 1972.—Referred to the Committee of the Whole House on the State of the Union and ordered to be printed

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To the Congress of the United States:

From the very beginnings of our history, the vitality of rural America has been at the heart of our Nation's strength. It is essential that we preserve and expand that vitality in the years ahead. For America will not be able to look eagerly to the future with a sense of promise and hope unless those who live in its rural areas are able to share in this vision. To help improve the quality of life in the American countryside, I am today presenting a series of proposals designed to marshal more effectively the energies of the private sector and of government at all levels in a cooperative program of rural development.

THE PROBLEMS OF RURAL AMERICA

All Americans have a high stake in rural development. For the problems which many rural areas are now experiencing are directly linked to those of our cities and suburbs. Changing patterns of life in rural America have changed the pattern of life in all of America.

A central cause of these changing patterns has been the increasing mechanization of agriculture and of other natural resource industries such as mining and lumber—a process which has resulted in a substantial reduction in jobs in these occupations in recent years. While employment opportunities in other occupations have more than offset these declines, the overall growth of economic opportunity in rural America has lagged far behind that of our urban areas. Today, dramatic disparities exist between metropolitan and rural areas in such indices as per capita income, housing standards, educational attainment and access to medical care.

At the same time, political institutions designed to deal with simpler problems in simpler times have frequently been unable to cope with these new challenges. The Federal Government often finds that it is too remote and too unwieldy to respond with precision to State and local needs. State and local governments are frequently too impoverished or too fragmented to undertake the necessary planning and development activities. Their problems are accentuated by the fact that widely dispersed rural population inevitably means a higher expenditure per person for most government programs.

One result of all these factors is that semi-deserted country towns—once centers of life for the surrounding countryside—stand today as stark reminders of unused and abandoned rural resources. In each of the three decades since 1940, half of our counties (not always the same ones) have lost population. Two out of every five of our counties lost population in all three decades. As I said in my State of the Union Message two years ago, many of our rural areas are being emptied of their people and their promise.

In many cases, those who have left the countryside have simply taken their problems with them. Indeed, many have seen their problems intensify as they have settled in over-crowded urban areas.

It is striking to realize, as I noted in this year's Message on the State of the Union, that even if we had a population of one billion—nearly five times the current level—our area is so great that we would still not be as densely populated as many European nations are at present. Our problems are not so much those of numbers as of distribution. And their solution requires the revitalization of the American countryside.

Changing Our Approach

In seeking to solve the problems of rural areas, we must not simply seek more money from the Congress and the taxpayers. In the past decade we have seen the folly of pouring money into projects which were ill-considered and lacking in local support. What we must now seek instead is a fundamental change in the way government approaches the entire developmental challenge.

The Federal Government has spent considerable sums on rural development. Programs which we have recommended for inclusion in our rural development Revenue Sharing plan alone are spending almost $1 billion this year and this is only a small part of our overall rural development spending. And yet, despite this substantial funding, the problems have continued to grow. What is it that has been missing from our rural development programs?

More Control at the State and Local Level

I believe that a major missing ingredient has been effective control of development programs at lower levels of government. Because we have relied so exclusively on Federal funds—handed out through bureaucratic processes and through narrow categorical grants—too many decisions have been made in Washington and too few have been made in rural America. I believe this is wrong. I believe we should return power to officials who are selected at the State and local levels.

As long as the Federal Government sets rigid rules, both through legislative and administrative guidelines, there is little room for local

initiative. Under our present system, a project that does not meet Federal standards does not get funded. This means that the talents of local government officials, of leaders in the private sector, and of public-spirited partnership and have taken the initiative. We must do success stories that can be found in rural economic development have occurred because local officials and private leaders have entered into a public-spirited partnership and have taken the initiative. We must do all we can to encourage such partnerships.

IMPROVED PLANNING

Even as we seek to decentralize, we must also work to improve planning. In many respects these goals represent two sides of the same coin. For plans which are developed at levels close to the people are likely to be more realistic, more imaginative and more useful than abstract blueprints which are drawn up far away from the scene of the action or which are altered to meet rigid Federal rules. Effective development does not require plans that can survive the scrutiny of Washington. Effective development requires plans that people believe in and will work to accomplish.

MORE ADEQUATE PUBLIC AND PRIVATE RESOURCES

More adequate development also requires more adequate resources. This does not simply mean more Federal money; it also means that Federal funds now available must be freed from the inhibiting restrictions within which they are now entangled. Funds which are free of these restrictions can be used in each locality where the needs are greatest, eliminating a great deal of inefficiency and waste.

But Federal grant money provides only a part of the Federal contribution to rural America. Adequate credit resources can also be extremely important in developing community facilities and in attracting private investment. In the end it is not Federal money, nor even the vast sums spent by State and local governments, which hold the key to rural development. The private sector has an enormous role to play and public efforts must keep this fact centrally in mind.

HELPING THE FARMER AND PROTECTING THE ENVIRONMENT

Rural America cannot move forward effectively into the future unless it respects those elements which have been the base of its strength in the past. We cannot build a stronger rural economy, for example, unless we also build a stronger agricultural economy. While we must work to change the American countryside, we must never do so at the expense of those who produce our food and fiber. We must work to create a better life for American farmers even as we provide an expanded range of opportunities for those who are no longer needed on the farm.

Even as we do more to promote agricultural prosperity, so we must do more to protect the rural environment. Just as development must not come at the expense of the farmer, so it must not come at the expense of environmental concerns. We cannot fully develop the American countryside if we destroy the beauty and the natural resources which are so much a part of its essential value.

BASIC PRINCIPLES

These then are the basic principles which should guide our new approach to rural community development:

We must treat the problems of rural America as a part of a general strategy for balanced growth.

We must reverse the flow of power to the Federal Government and return more power to State and local officials.

We must fight the rigidities of narrowly focused categorical grants.

We must facilitate more adequate advance planning.

We must reorganize the Federal Government so that it can more effectively support planning and execution at the State and local level.

We must provide adequate resources and credit, in ways which attract greater private resources for development.

We must develop rural America in ways which protect agriculture and the environment.

On the basis of these principles, we have prepared the following recommendations for action—including proposals which have been submitted earlier and a number of new initiatives.

PROPOSALS ALREADY SUBMITTED TO THE CONGRESS

DEPARTMENT OF COMMUNITY DEVELOPMENT

One of the most significant barriers to effective planning and coordination in rural areas has been the fragmentation of Federal efforts. Too many programs which should be closely related are operating as very separate entities. As a result, State and community leaders must often run a complex obstacle course in order to obtain development assistance. Frequently there is poor coordination and wasteful duplication and in some cases the action of one Federal agency actually conflicts with that of another.

The principal reason for this fragmentation has been the failure of the Government to recognize the inter-relationship among rural, suburban and urban problems and the need to strengthen the essential social and economic partnership between rural America and our great metropolitan centers.

I believe the proper solution to this problem is to gather the principal Federal programs which support community development within a single new Department of Community Development.

This new department would both simplify and expedite the tasks of State and local governments through a broad range of program and technical support efforts. Because fewer questions would have to be resolved in Washington at the interagency level, the new department would also expedite the decentralization of Federal decision-making which this administration has already begun. The new Department of Community Development would take over most of the functions now performed by the Department of Housing and Urban Development; some of the functions of the Department of Transportation, the Office of Economic Opportunity and the Small Business Administration; and the responsibilities of the Department of Commerce with respect to the Title V regional commissions.

Under our revised plan for executive reorganization, the Department of Agriculture would remain as a separate department focusing

on the needs of farmers. But a number of present Department of Agriculture development functions would be moved to the new Department of Community Development, including the Farmers Home Administration loan and grant programs for rural community water and sewer systems and for rural housing; the Rural Electrification Administration loan programs for electric and telephone systems; the recently established Rural Telephone Bank; research programs related to rural community development conducted by the Economic Development Division of the Economic Research Service; and the programs of the recently established Rural Development Service.

Comprehensive reorganization would mean that every Federal dollar spent on rural development could have a far greater impact. I again call on the Congress to establish this new department, which would be uniquely capable of launching a well-developed, well-coordinated campaign to achieve the nation's community development goals.

A REVENUE SHARING PLAN FOR RURAL AMERICA

Our revenue sharing plan for rural America proposes to unite the funding for a number of existing programs into a single more flexible resource for rural community development. Our proposed program would add $179 million to the various programs to be consolidated, bringing the total annual program to a level of $1.1 billion. Each State would receive at least as much under revenue sharing as it receives under the current system of categorical grants. The program would take effect at the beginning of Fiscal Year 1974.

Rural community development revenue sharing funds would be paid out to the States and to Puerto Rico, the Virgin Islands and Guam according to a formula which takes three factors into account: the State's rural population, the State's rural per capita income in comparison to the national average, and the State's change in rural population compared to the change in population in all States. In addition, every State would receive a minimum amount to assure that all States participate in the program.

The revenue sharing proposal incorporates a requirement for statewide development plans to ensure that activities carried on under the rural community development revenue sharing program could be coordinated with activities under the other general and special revenue sharing proposals, including those for urban community development and for transportation. Each year the States would prepare a comprehensive statewide development plan which would outline spending intentions for programs in rural areas and smaller cities, as well as in metropolitan and suburban areas. It would be the responsibility of the Governor of each State to draw up this statewide plan. This process would be supported by another major administration initiative, our proposed $100 million planning and management grant program.

The development plan would be formulated through a consultative process which would consider plans submitted by multi-jurisdictional planning districts, which the Governors could establish with rural revenue sharing funds. These local planning organizations would be composed of local elected officials and would be established in all areas of the State. One member from each of these district planning bodies would sit on a panel to assist the Governor in the comprehensive planning process.

This process for developing a statewide plan would ensure that public officials and the general public itself would focus attention on the inter-relationships between rural and urban development within each State. The plan would identify potential growth areas and development sites as well as areas which are of special environmental concern. The plan could also take into account interstate projects and programs developed through the regional commission mechanism.

The rural community development revenue sharing program represents a reaffirmation of faith in State and local governments. It is based on the concept that local people have the best understanding of local problems and on the belief that they have the will and the ability to move vigorously and intelligently to solve them. The revenue sharing approach removes the often stifling and always frustrating strictures which require that Federal grants be used for narrow purposes. It provides the flexibility which State and local governments need in order to fund those projects which they themselves believe would best ensure rational development in their areas and most effectively enhance the quality of life.

The development plans drawn up under this program would cover an entire State. Rural revenue sharing funds would be spent largely outside metropolitan areas while urban revenue sharing funds would be used within those areas. It is important to note, however, that rural areas include almost 2,800 of the more than 3,100 counties in the United States.

Last March, when I submitted the rural community development revenue sharing proposal for the first time, I said that "the major challenge facing rural America is to diversify its economy and to provide full opportunity for its people to enjoy the benefits of American life." I still believe that revenue sharing can do a great deal to help rural America meet that challenge.

New Proposals

Revenue sharing and reorganization can have a great long-range significance for rural America. But we must also take a number of other steps which I am outlining today, including two major new proposals. The first involves a new approach to rural financial assistance. The second concerns added authorities for improving the environment and attaining conservation objectives in rural America.

EXPANDED CREDIT FOR RURAL AMERICA

I am recommending today a new rural community development credit sharing authority which would give the Secretary of Agriculture and the State Governors new tools to help revitalize rural areas. Under this proposal, a new Rural Development Credit Fund would be established to provide loans, loan insurance and loan guarantees to the States for their use in assisting development. This credit would be made available through the Farmers Home Administration for up to 80 percent of the cost of establishing or improving businesses which help create economic growth in rural areas. This fund would also make loans and guarantees for sewer and water facilities and other public works and community facilities, such as industrial parks and com-

munity centers, which work directly or indirectly to improve employment opportunities.

Loans and guarantees would be made in accordance with the State development plan required under rural revenue sharing. The States would select specific projects which are consistent with this development plan.

A significant new feature of this credit-sharing proposal is the requirement that most of the authorizations be divided among the States according to the same formula established for rural community development revenue sharing. Specifically, 80 percent of the loan funds for commercial and industrial development and for community facilities would be allocated to the States on a formula basis. The remaining 20 percent of loan authorities would be administered by the Secretary of Agriculture. A large portion of the authorization—65 percent in each fiscal year—would be reserved for commercial and industrial development uses and the remainder would be available for community development purposes. Each State would know in advance the amount of grants and credit it could commit according to its plan each year.

This proposal would involve private lending institutions as fully as possible in the rural revitalization effort. Financial assistance would not be provided under the program unless it was clear that firms and communities could not obtain credit elsewhere. Fully three-quarters of each year's authorization would have to be in the form of a guarantee of loans made by private financial institutions. Hopefully, almost all loans could be made by this sector of our economy. In addition to the direct involvement of private banks, this program would also emphasize loans to private entrepreneurs for job creation through commercial and industrial development. Since some equity would be required, these business decision-makers would be far more likely to make realistic, workable development decisions than far-removed Federal bureaucrats can now do. It is also likely that these market-oriented decisions would provide sounder, long-term employment opportunities. This combination of Federal funding, local initiative and statewide planning utilizing the private market economy should produce a far more productive use of our resources.

I am proposing an authorization level for this credit-sharing program, which includes the existing Farmers Home Administration water and sewer program, of $1.3 billion in fiscal year 1974.

My new proposals also involve additional features and technical improvements which would streamline and improve the effectiveness of farm and rural loan programs now administered by the Department of Agriculture. Among these are proposals to increase the farm operating loan limit to $50,000 and to increase the limit on new loans to be held in the agricultural credit insurance fund from $100 million to $500 million. This latter provision would provide adequate levels to ensure that the expanded loan and guarantee program would have a substantial impact on rural areas.

In summary, this new approach to credit assistance contains several advantageous features:

(1) It would establish a direct link between credit assistance and revenue sharing since both programs would be administered according to the same statewide plan.

(2) It would expand the role of private lending institutions. Firms otherwise unable to obtain credit would have a chance to mature under this plan so that they could borrow from private lending institutions at a later time without Federal guarantees.

(3) The plan could work through a delivery system for servicing loans which is already in operation—the Farmers Home Administration, which has offices in more than 1,700 counties. There is an office within a relatively short distance of practically every rural community in the United States. This whole system, moreover, could be readily transferred to a new Department of Community Development.

(4) Projects could be jointly financed by a number of Federal agencies, such as Small Business Administration, the Department of Housing and Urban Development, and the Environmental Protection Agency, as well as by other private and public State and local agencies.

(5) Improved planning and program coordination would be possible under statewide plans which grow out of the needs and suggestions of multi-jurisdictional planning districts already established in more than half of the States. These planning bodies would also provide expertise for communities that are too small to employ their own development experts.

IMPROVING THE RURAL ENVIRONMENT

To help carry out our environmental concerns, I propose that the Secretary of Agriculture be authorized to share the costs of long-term conservation in watershed areas. Such an authorization has worked most successfully under the Great Plains program. This measure would foster the orderly establishment of needed land treatment measures within the small watershed areas of the country.

In addition, technical and cost-sharing assistance should be authorized within watershed areas for the improvement of water quality. This would mean that, for the first time, Federal cost-sharing would be made available to improve water quality on a year-round basis. Such technical and cost-sharing assistance should also be provided in Resource Conservation and Development Project areas.

Finally, the Secretary of Agriculture should be authorized to inventory and to monitor soil, water, and related resources and to issue a national land inventory report at five-year intervals. Such data could be used at all levels of government in land use policy planning.

All these proposals would broaden the dimensions of Federal service and would give new impetus to the entire rural development task. But I would emphasize again that this task must be one in which the people themselves are directly involved—and it must begin in rural America. Our proposals would provide rural people and communities with the tools they need to achieve their goals and I hope these recommendations will receive early and favorable consideration.

Results of Our Increased Emphasis on Rural Development

These essential steps now depend on action by the Congress. But while action on past proposals has been pending, we have also been

taking a number of administrative steps to improve our rural development programs and have substantially increased program funding. For example:

—The funding of principal rural development programs in the Department of Agriculture this year ($2.8 billion) is more than four times that of fiscal year 1961 and twice that of fiscal year 1969. Twenty-nine of the thirty-four rural development programs in that department have been expanded since 1969.

—Since 1969, the Department of Housing and Urban Development has nearly tripled its grants for non-metropolitan planning districts. It funded 155 districts which received $3.4 million in grants in the last complete fiscal year.

—Rural housing assistance, with an emphasis on low and moderate income families, has reached a record level of $1.6 billion under the Farmers Home Administration program—more than triple the 1969 level.

—Research on rural development and housing is estimated at $9 million this year, more than double that of 1969.

—Funding for community sewer and water facilities has reached a record high level of $300 million in loans, plus $42 million in direct grants. This represents an increase of almost 80 percent over the level provided two years ago.

—Soil Conservation Service resource conservation and development, flood prevention, and watershed programs have expanded from $103 million in fiscal year 1969 to an estimated $156 million this year.

—With the recent release of an additional $109 million in funds for rural electrification, total available funds for the Rural Electrification Administration have been increased to $438 million for the current fiscal year. REA loans from 1969 to 1971 totaled more than $1.4 billion. Since 1969, REA-financed systems connected 700,000 new electric services and 420,000 telephone users—the largest three-year growth since the 1950's.

—The Rural Telephone Bank, with an initial Federal subscription of $60 million in the first two years, has been established to provide new credit resources for telephone cooperatives seeking to improve rural communications.

—Extension Service community development activities this year attained a funding level estimated at $12.7 million, an increase of $3.7 million over 1969 levels.

—To broaden the role of the employment service in serving our rural population, a Rural Manpower Service has been established in the Department of Labor.

—A cooperative program called Concerted Services in Training and Education has involved several Federal agencies as well as local organizations in helping individuals better utilize Federal programs.

—A special office has been created within the Department of Health, Education, and Welfare to focus on special problems of human resource development in rural areas.

This expansion of Federal efforts to stimulate the development of rural communities has been paralleled by the increased efforts of individual citizens, civic organizations, private enterprise and government at the State, county and municipal level. There are many evidences of the resulting overall progress.

—Outmigration from rural communities slowed from 4.6 million during the 1950's to 2.4 million during the 1960's. Most of the population losses during the 1960's occurred in the Great Plains and intermountain areas of the West, but gains were realized in parts of the Southern Piedmont, the middle Tennessee Valley, eastern Oklahoma, and northern and western Arkansas. This is evidence that the migratory tide can be slowed—and in some instances even reversed.

—Income per capita in rural America is growing faster than in metropolitan America, though it still remains below the urban level.

—While the incidence of poverty is greater in rural than in urban America, its reduction rate is nearly twice as fast.

—Non-farm employment outside the metropolitan centers has generally grown at a slightly faster rate than employment in metropolitan areas. Manufacturing employment is expanding more rapidly in rural areas than in the large cities.

—Although rural America still contains about two-thirds of our inadequate housing, the ratio of inadequate to adequate rural housing units has been reduced from one-third to one-seventh in recent years. Rural electric and telephone services have improved; more than 98 percent of America's farms are now electrified.

—During the past three years, per capita farm income has averaged about 75 percent that of non-farm workers. This is still too low, but it represents a significant improvement over the past decade.

—The median years of school completed by persons 25 to 29 years of age is now about the same—12 years plus—in metropolitan and non-metropolitan areas.

All of these signs of progress are most encouraging. But this record is not something to stand on—it is something to build on. Much significant work has already been done—but the most important tasks are still before us.

The longer we put off these tasks the more difficult they will be. With the cooperation of the Congress we can promptly take up this work, opening new doors of opportunity for all who seek a better life in rural America.

RICHARD NIXON.

THE WHITE HOUSE, *February 1, 1972.*

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., September 30, 1971.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request of July 14, 1971, for a report on S. 2223, a bill to amend the Consolidated Farmers Home Administration Act of 1961 and for other purposes.

Title I of the proposed legislation broadens the loan and grant authorities of the Farmers Home Administration to permit the funding of industrial development, health facilities, public works and a wide range of other rural community development projects, in addition to the agency's present authority to finance housing, community services and farmer programs. The present FHA grant authority would also be increased from $100 million to $300 million, and the agency would be authorized to provide its services in cities of up to 35,000 population. In addition, under the proposed legislation, FHA would be divided into a Farm Development Administration and a Rural Enterprises and Community Development Administration and placed along with the Rural Electrification Administration under a new Assistant Secretary of Agriculture-Rural Development Credit.

Title II of S. 2223 would create a new Federal Rural Development Credit System of borrower-owned rural development credit banks and related financial institutions and services in order to furnish supplementary credit for a wide variety of public and private development projects in nonmetropolitan areas.

S. 2223 reflects the growing Congressional interest in undertaking new approaches to the development of rural America. This interest is shared in full measure by the Department and the Administration generally.

The President's proposals for reorganization of the Federal government and his general and special revenue sharing proposals are aimed at assuring that the nonmetropolitan areas of the country receive an equal share of attention and resources in the expenditure of Federal funds and the delivery of Federal services.

This Department can also point to a significant growth in its commitment to rural development activities. Proposed funding of major rural development programs by the Department in FY 1972 will be more than four times the level for FY 1961 and more than twice the level for FY 1969. Thirty-one of 39 programs have been increased above FY 1969 levels.

The Department at this time does not recommend the enactment of S. 2223. The objectives of this Bill can be gained more efficiently and at less cost through an expansion and improvement of existing programs, approval and implementation of the President's reorganization and revenue sharing proposals, and the development of better methods of channeling credit funds into specific rural areas where national growth policies would indicate the need for supplementary financing of public and private development that is not being funded through existing public and private sources.

We are enclosing an appendix to this report which gives the Department's position on S. 2223 in detail and describes some of the approaches now being considered to improving the credit position of lagging rural communities.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

J. PHIL CAMPBELL, *Under Secretary.*

Enclosure.

July 23, 1971

UNITED STATES DEPARTMENT OF AGRICULTURE

STATEMENT CONCERNING S. 2223, A BILL TO AMEND THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961 AND FOR OTHER PURPOSES

(Appendix to Report on S. 2223)

Title I of S. 2223 would broaden the loan and grant authorities of the Farmers Home Administration to permit funding of industrial development, health facilities, assorted public works and a wide range of other rural community development type projects, in addition to the present housing and community services programs for rural communities and farmer programs. The grant authority of FHA would be increased from $100 million to $300 million. The agency would be authorized to operate in cities of up to 35,000 population or more populous areas if this was found suitable to promote rural development. In addition, FHA would be divided into a Farm Development Administration and a Rural Enterprise and Community Development Administration and placed along with the Rural Electrification Administration under a new Assistant Secretary for Agriculture-Rural Development Credit.

Under S. 2223 the Rural Enterprise and Community Development Administration would provide supplementary credit and supervisory assistance for new or expanded projects and enterprises. S. 2223 would, in effect, introduce an additional Federal agency into areas of operation that are already the responsibility of other Federal departments and agencies, including the Economic Development Administration, the Small Business Administration, the Department of Housing and Urban Development, the Department of Health, Education, and Welfare, the Department of Labor and other agencies whose responsibilities extend to smaller population areas as well as larger cities. Creation of such an agency in the Department would serve to worsen the already serious problem of Federal agency proliferation, overlap and confusion in both the planning and administration of programs at all levels.

In addition, in order to carry out this provision of the Bill, the Department would probably be required to establish an entirely new set of field offices parallel with the offices of the proposed Farm Development Administration, which would be responsible for present farm lending programs of FHA. Due to the expanded and highly complex mission of the proposed Rural Enterprise and Community Development Administration and the many specialists that would be required to accomplish this mission, it is unlikely the county office structure of the Farm Development Administration could be utilized for this purpose. Therefore, it would probably be necessary for the proposed Rural Enterprise and Community Development Administration to establish additional field offices.

The President has proposed legislation to establish a new Department of Community Development that would bring together under a single coordinated management the many diverse Federal programs and agencies now providing assistance to rural and urban communities. The President's proposal would result in superior organizational arrangements to the restructuring and expansion of the FHA community programs provided for in S. 2223.

Title II of S. 2223 would create a new Rural Development Credit System to meet part of the need for increased investment in rural areas by establishing a system of borrower-owned financial institutions to give rural areas access to the central money markets of the nation. The System would consist of a supervisory Federal Rural Development Credit Agency, a Federal Rural Investment Equalization Administration and three sets of institutions to make loans for rural development purposes: participating public and private financial institutions, District Rural Development Credit Agencies, and Regional Rural Development Credit Banks.

The System would provide supplementary financing for rural development purposes, defined as any public or private project contributing to a reasonable national growth policy and the enhancement of rural areas. Appropriated funds would be made available through the Federal budget in the amount of $2 billion for the purchase of capital stock in the Regional Banks by the Federal Rural Development Credit Agency and in the amount of $300 million annually for interest supplements and capital augmentation payments. Technical and advisory assistance for borrowers and research and fact-finding related to area economies and economic development would also be an important responsibility of units of the System.

The most serious question to be raised about the proposal contained in Title II of S. 2223 is whether economic conditions in nonmetropolitan areas have deteriorated so seriously that a massive, potentially costly, and administratively complex effort of the kind proposed is now required. The nonmetropolitan regions and subregions of the country differ greatly in the major problems they face, their social and economic conditions, and growth potential. Some rural areas are growing rapidly, with an expansion both of economic activity and population pressures. In other areas, there is stagnation and economic decline and a general deterioration of the community fabric. A less costly and, in the long run, more effective approach to the problems and needs of the latter would be to expand selected existing supplementary credit programs and improve present methods of channeling private investment into selected rural areas for the specific purpose of implementing national growth policies. In addition, there is also a pressing need for more flexible Federal grant assistance to states and localities for necessary and essential community services that can support long-term development programs.

The President's proposed rural revenue sharing program would direct $1.1 billion of Federal funds into nonmetropolitan areas for purposes similar to those defined as rural community development projects in S. 2223. Rural revenue sharing is intended in part to finance projects and activities that will enable rural communities to improve facilities and services which provide a better climate for private investment. In addition, rural revenue sharing funds may also be used by state and

local governments to give credit assistance through locally sponsored institutions to accelerate expansion of commercial and industrial enterprises.

Policy and administrative flexibility is built into the rural revenue sharing proposal to enable state and local officials to pinpoint the geographic areas of greatest need and to give priority to funding those projects that will lead to the greatest measure of expansion and improved opportunity. In specific areas where shortages of private investment capital were seriously retarding development, rural revenue sharing funds could be used as "seed" capital for investment. The establishment of state and local institutions for this purpose is much preferable to creating an additional nationwide Federally-sponsored credit system.

The Administration is also moving on several additional fronts to provide for orderly financing of major development programs now funded outside the regular appropriated budget. S. 1015, now pending before Congress, proposes the establishment of an Environmental Financing Agency to establish a mechanism for the purpose of marketing bonds and obligations issued by incorporated areas to finance water and sewer systems. The Environmental Financing Agency would offer its own securities for sale in the central money markets and use these funds for the purchase of municipal bonds.

The President has stated that he will also propose legislation to provide for coordinated financing of government credit agencies in the capital market. It is expected a proposal will be made to Congress to create a Federal Financing Bank to provide a mechanism to market the securities and obligations of government agencies which finance their programs through the sale of securities or other instruments in the private capital markets. The intent is to replace with a single marketing mechanism the present proliferation of marketing efforts by the several agencies financing their programs outside the budget. This would bring order and stability into this sector of the market.

A principal objective of the Rural Development Credit System proposed in Title II of S. 2223 is to increase private investment in rural development projects in areas where such investment now is lagging.

To accomplish this objective, sizeable and continuing Federal subsidies would be required. This expectation is stated in Section 801 as a policy objective of the Bill. The mechanisms to be used in the implementation of the policy, interest supplements and capital augmentation payments, are provided for in Sections 804 and 805. In addition, under Section 707 appropriations are authorized to augment the special Treasury fund to cover administrative expenses during the first five years of the System's operation.

The difference between the total cost of operating the System and the return from collections on loans would be covered by appropriated funds advanced by the Treasury Department pursuant to appropriation action by Congress. This method of financing would, of course, provide a high degree of leverage to the Federal funds used for subsidy purposes, but it would remove from the discipline of Federal budgetary controls the greater part of the System's lending operations and would result in continuing and substantial levies against Treasury funds to cover the subsidies.

The financial apparatus proposed in Title II of S. 2223 appears overly complex and has certain dubious administrative features, for example, the establishment of district Rural Development Credit Agencies as financial institutions of multi-jurisdictional planning and development districts of the states. This proposal would assign complex credit functions to quasi-public organizations established primarily for substate regional planning which lack competency in commercial credit practices and administration.

Progress toward the designation and successful operation of planning and development districts varies considerably from one state to another. These multi-county units in some states are without the necessary legal basis and state administrative support to provide a reasonable assurance of their competent operation, even at the level of development planning administration. In rural areas, particularly, they may be limited in staff, experience and broad-based local support.

In addition, the present districts have geographic boundaries determined on the basis of a variety of factors having little to do with the administration of a new credit program within the boundaries of the district. For example, some might be too small for this purpose, if economies of scale were to be obtained.

There is also the added factor that multi-county planning units, if given adequate administrative resources, can and should be major technical and administrative aids to local government and private organizations in planning for and managing development in nonmetropolitan areas. If such agencies now become directly involved in the establishment and operation of District Credit Agencies under the proposed System, they would probably be required to devote most of their resources to this responsibility, thus neglecting responsibilities to the larger rural community for comprehensive planning and management assistance.

Under S. 2223, public bodies, including units of local general government, would be authorized to receive funding through the Rural Development Credit System. State statutes generally restrict the authority of local general purpose units of government to assume credit obligations. Unless these statutes were changed, many such units of local government would not be able to utilize the System to any great extent. State designated planning and development districts also would be eligible borrowers under the proposed legislation. At present, very few such organizations have the authority to undertake borrowings for public purposes due to restrictions in the enabling statutes creating them.

It can be expected that the administrative cost of operating the proposed Rural Development Credit System will be substantial. Administrative costs of the Farm Credit System are approximately $136 million annually for all purposes. The Farm Credit System is relatively simple in objectives and operation compared with the proposed Rural Development Credit System. The latter would be engaged in additional complicated lending operations and would be providing loans, guarantees, loan participations, etc., for many other purposes, i.e., housing, industrial development, community facilities, etc. Both the Regional Banks and the District Credit Agencies would be responsible for providing technical assistance

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to borrowers on a continuing basis and, in addition, the Federal Rural Development Credit Agency would provide numerous services related to economic analysis and reporting and technical asisstance. The agency is required also to employ a staff adequately equipped in the field of development banking to give advice in all fields and activities for which the System would provide financing.

Sections 708 and 710 authorize and require the Federal Rural Development Credit Agency to "undertake research into the rural development and credit needs of the rural areas of the Nation and ways and means of meeting such needs . . ." and to "have . . . personnel qualified to give advice" in a wide range of fields of interest to local governments and people in rural areas.

These broad authorities duplicate the authorities and programs of the research and extension agencies of the USDA and the Land Grant Universities.

The existing research and extension agencies have qualified and experienced staff who can perform these services effectively and efficiently. The Department objects to these provisions because of the unnecessary duplication of staff and services and because existing programs can be expanded to serve growing needs at lower cost than under these provisions of this legislation.

The sizeable costs of the foregoing administrative and management services would, of course, be in addition to the interest supplement and capital augmentation payments authorized by S. 2223.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., March 1, 1972.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate

DEAR MR. CHAIRMAN: This is in response to your request of December 13, 1971, for a report on S. 2981, a bill "To provide for environmental improvement in rural America."

The Administration recommends enactment of those selected provisions of S. 2981 which were included in the President's Rural Development Message to Congress, February 1, 1972.

Title I of the bill would amend the Watershed Protection and Flood Prevention Act (Public Law 83-566), as amended, (1) to authorize the Secretary of Agriculture to cost-share in watershed projects for needed measures planned and installed in cooperation with public agencies and local organizations that would restore, improve and maintain the quality of the environment, and storage for water quality management, (2) to authorize the Secretary of Agriculture to enter into long-term contracts with landowners and operators for making changes in cropping systems and land uses and for installing needed soil and water conservation practices in watershed projects, (3) to authorize local organizations to use Federal funds available to them other than those appropriated for the purposes of the Watershed Protection and Flood Prevention Act, in acquisition of land, easements, and rights-of-way needed in connection with works of improvement in watershed projects, and (4) to authorize the Secretary of Agriculture

to bear not to exceed one-half the cost of storage of water added to any reservoir constructed or modified under the Act to meet present demands for municipal, industrial or rural development needs. Also included are provisions for coordination with the Administrator of the Environmental Protection Agency and the Secretary of Health, Education and Welfare, respectively, on work plans which would include works of improvement for the prevention, control and abatement of water pollution or which include features which may affect the public health.

Title II, Section 201 of S. 2981 provides for "amending the Bankhead-Jones Farm Tenant Act, as amended." This amendment would add to the present authorizations in the Act by authorizing the Secretary of Agriculture to assist State and local public agencies and local non-profit organizations by (1) providing technical and cost-sharing assistance (up to 50%) for the storage of water to meet rural community water supply needs, (2) providing technical and cost-sharing assistance for installing measures and facilities for water quality management, for the control and abatement of agriculture-related pollution, and for the disposal of solid wastes, and (3) providing technical and cost-sharing assistance for the storage of water in reservoirs, farm ponds, or other impoundments having community benefits, together with the necessary water withdrawal appurtenances for the purpose of rural fire protection. Section 202 directs the Secretary of Agriculture to carry out a land inventory and monitoring program to include studies and surveys of erosion and sediment damages, land use changes and trends, and environmental degradation resulting from improper use of soil, water and related resources, and to report at not less than five-year intervals on soil, water and related resource conditions.

The following is a summary of the provisions supported by the Administration: (1) amending the Watershed Protection and Flood Prevention Act to provide cost-sharing for water quality management, which should be consistent with the standards and regulations established by the Water Resources Council on cost-sharing for water quality management, to authorize agreements for cost-sharing up to 10 years within watershed projects for land treatment measures, (2) amending the Bankhead-Jones Farm Tenant Act to authorize cost-sharing for water quality management within Resource Conservation and Development areas which should be consistent with the standards and regulations established by the Water Resources Council on cost-sharing for water quality management, and (3) directing the Secretary to carry out a land inventory and monitoring program and to report at not less than five-year intervals on soil, water and related resource conditions. These provisions are estimated to cost $16.5 million the first year, increasing to $27.0 million the fifth year. The Administration also supports provisions for interagency coordination in connection with the review of watershed work plans.

The Administration does not support other provisions in S. 2981, which add to ongoing Soil Conservation Service programs, including cost-sharing for additional purposes, and the use of other available Federal funds. We believe the President's rural revenue sharing proposal would be a more effective approach.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

T. K. COWDEN, *Assistant Secretary.*

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., November 3, 1971.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate

DEAR MR. CHAIRMAN: This replies to your request of April 20, 1971, for a report on S. 1560, a bill "To amend the Soil Conservation and Domestic Allotment Act, as amended, to permit sharing the cost of agriculture-related pollution prevention and abatement measures."

The Department of Agriculture recommends that the bill not be passed.

These amendments would add to the present authorizations in the Act, one specifically to provide assistance for the "prevention or abatement of agriculture-related pollution," and others to permit implementing that addition. They would permit the Secretary of Agriculture to share with agricultural producers the cost of carrying out agriculture-related pollution prevention or abatement practices which do not also conserve soil or water. This expanded authority would authorize the same kind of assistance that is currently available under the Rural Environmental Assistance Program for soil-building and soil- or water-conserving practices, including wildlife-conserving and pollution-abating practices which are also soil- or water-conserving practices.

The inclusion of these proposed additional practices would be inconsistent with the President's Rural Community Development Special Revenue Sharing Proposal which will incorporate the funds from the Rural Environmental Assistance Program (REAP). The Rural Community Development Revenue Sharing Proposal will permit State and local governments to undertake a broad range of problems which could involve a program along the lines of REAP. Such a program could include assistance such as that contemplated in S. 1560. Therefore, we believe S. 1560 is unnecessary. Also, it is inconsistent with the concept of revenue sharing and increasing reliance on local initiative and decisionmaking.

The proposed amendment would also be inconsistent with the Administration's policy of curtailing commercial/industrial pollution through regulatory means and requiring recovery of costs of facilities associated with treatment of industrial wastes. We believe that departure from this policy is undesirable.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

J. PHIL CAMPBELL, *Acting Secretary.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 17, 1972.

B-174909.

Hon. HUBERT H. HUMPHREY,
Chairman, Rural Development Subcommittee, Committee on Agriculture and Forestry, U.S. Senate.

DEAR MR. CHAIRMAN: Reference is made to your letter of January 5, 1972, requesting our comments on the November 8, 1971, Committee Print of S. 2223, which, as stated in its title would establish a nationwide Rural Development Credit Incentives System and amend the Consolidated Farmers Home Administration Act of 1961.

The bill contains three titles. The first title would create a new Federal Rural Development Credit System of borrower-owned rural development credit banks and related financial institutions and services in order to furnish supplementary credit for a wide variety of public and private development projects in nonmetropolitan areas.

The second title expands the authority of the Farmers Home Administration to permit the funding of industrial development, health facilities, public works, and a wide range of other rural community development projects. It would also reorganize the loan programs under the Farmers Home Administration of the Department of Agriculture so that the Department could more effectively deal with the credit of both farmers and nonfarm rural residents.

The third title would require the Secretary of Agriculture to pay 50 percent of the interest yield on any obligation for a rural development purpose issued by a State, State instrumentality, or local general Government as a taxable, rather than tax-exempt, obligation and rename the Department of Agricultures as the Department of Agriculture and Rural Development.

Section 201(g) of S. 2223 would provide that all Federal Board members shall be reimbursed for travel and reasonable expenses incurred in attending meetings of such Board and in discharge of their official duties. This section places no restriction upon either the type or amount of travel expenditures, nor does it permit the payment of either travel or subsistence on a commuted basis. Sections 5701-5708 of title 5, United States Code, provide general authority for the heads of all agencies and establishments to pay a commuted allowance of $25 per day in lieu of actual expenses for subsistence and other necessary travel expenses unless such allowance would be much less than the actual and necessary expenses in which event the head of the agency may authorize reimbursement not to exceed $40 per day, on an actual expense basis.

Assuming that it is not desired to make the travel expenses of the Federal Board members subject to the general laws relating thereto, we believe that the bill would provide more satisfactory guidelines from the standpoint of both administration and audit, and at the same time, not result in the loss of monetary benefits if section 201(g) were revised to read as follows:

> Each appointed member of the Federal Board shall receive $200 a day for not more than seventy-five days of meetings each year and all members shall be entitled to be reimbursed for necessary travel expenses (or in the alterna-

tive, mileage for use of his privately owned vehicle and a per diem in lieu of subsistence not to exceed the rates prescribed in 5 U.S.C. 5702, 5704), and other necessary expenses incurred in attending meetings of the Federal Board and in discharge of his official duties, without regard to the provisions of subchapter I, Chapter 57 of title 5 of the United States Code, the Standardized Government Travel Regulations, or 5 U.S.C. 5731. Nothing in the preceding sentence shall be construed to limit the number of days of meeting each year to seventy-five days.

We suggest also that section 403(h) relating to members of the board of directors of the Regional Banks be revised in a manner similar to the suggested revision of section 201(g), including the last sentence thereof.

Sections 302(b) and 703(b) would authorize the Federal Rural Development Credit Board to fix the allowance for necessary travel and subsistence of the Executive Director and Administrator, respectively. We are not aware of any reasons why the Executive Director and the Administrator should not be subject to the usual travel laws and regulations and we suggest that these sections be revised to make their travel subject to the laws and regulations generally applicable to Federal employees.

Section 303 states that all acts of the Executive Director shall be conclusively presumed to be in compliance with the orders and directives of the Federal Board. Section 406 contains a similar provision stating that any Regional Bank, its board of directors, and its president shall be conclusively presumed to be acting in accordance with policies and regulations established by the Federal Agency in all their actions and decisions. These provisions are brought to the attention of your committee in that the need and the purposes thereof are not entirely clear to us.

Section 407(a) states that the pertinent provisions of the Government Corporation Control Act shall be applicable during the time stock of any Regional Bank purchased by the Executive Director is outstanding. The applicable audit provisions of the Government Corporation Control Act would require annual audits and reports by the General Accounting Office. We believe that the Comptroller General should have reasonable flexibility in the utilization of the manpower resources of the General Accounting Office. Accordingly, we recommend a provision along the following lines be added at the end of section 407(a):

> Notwithstanding the requirements for annual audits and annual reports to the Congress thereon contained in sections 202 and 203 of the Government Corporation Control Act the operations of the Regional Rural Development Credit Banks shall be subject to audit by the General Accounting Office at such times and to such extent as the Comptroller General shall determine.

Subsection 506(b) would authorize each District Agency in extending financial assistance to borrowers to provide for deferral of

the initial annual repayment of principal and interest for not to exceed ten years. In view of the interest supplements and the capital augmentation payments authorized by sections 704 and 705 your Committee may wish to revise this section to include guidelines as to the conditions under which deferral of the repayment of principal and interest could be authorized.

Sections 704(c) and 705(d) provide that no applicant shall be eligible for an interest supplement or capital augmentation payment unless his books of account are open at all times for examination by appropriate authority and the General Accounting Office. Section 707 states that as a condition of approval of any application, the applicant must agree to keep his books of account open at all times for examination by appropriate authority and the General Accounting Office. We believe that access by the General Accounting Office as authorized in section 707 is all that is necessary. Accordingly, we suggest that the references to the General Accounting Office in sections 704(c) and 705(d) be deleted.

Section 705(c)(2) would involve the General Accounting Office in the administrative process of determining the amount of capital augmentation payments authorized under section 705. We believe that it would be undesirable for our Office to participate in those determinations in that such participation by our Office would be inconsistent with the concept of independence and objectivity which would be implicit in any reviews by our Office of the activities of the Federal Rural Development Investment Incentives Administration. Accordingly, we urge that the reference therein to the General Accounting Office be deleted.

Section 802(a) states:

> Except as provided in this Act, each institution of the Rural Development Credit System at such times as the Federal Board may determine, shall be examined and audited by examiners of the Farm Credit Administration on a reimbursable basis and by auditors of the General Accounting Office, but in no event shall any such institution be examined and audited less frequently than once a year. If the Executive Director determines it to be necessary or appropriate the required examinations and audits may be made by independent certified public accountants * * *.

This section authorizes the Federal Rural Development Credit Board and the Executive Director to determine whether the institutions of the Rural Development Credit System would be audited by the Farm Credit Administration, the General Accounting Office, or certified public accountants. We believe that audits by the General Accounting Office should be at the discretion of the Comptroller General. Accordingly, we recommend that the reference to the General Accounting Office be deleted from section 802(a). Appropriate provision for audits by the General Accounting Office could be made by adding a new subsection to section 802 as follows:

> Each institution of the Rural Development Credit System shall be subject to audit by the General Accounting Office at such times and to such extent as the Comptroller General shall determine.

We noted the following editorial matters.

We believe the word "not" should be deleted from line 13, page 46.

On page 91, line 24, the words "District Agency" presumably should be "Federal Agency."

Sincerely yours,

R. F. KELLER,
Deputy Comptroller General of the United States.

ENVIRONMENTAL PROTECTION AGENCY,
Washington, D.C., September 30, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, Committee on Agriculture, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for our views and recommendations on Senate bill S. 2223 and Amendment 153 to S. 1483. You have requested that we give particular attention to the most effective ways in which the credit institutions proposed in the bills could supplement rather than compete with the credit programs of this Agency.

S. 2223, a bill "To amend the Consolidated Farmers Home Administration Act of 1961, and for other purposes," includes two Titles. Title I of the bill would broaden the applicability of the Act by increasing the types of projects eligible for aid under it, including pollution control, waste disposal, and water supply projects. Farmers Home Administration grant and loan authority would increase from $100 million to $300 million. Further, aid available under the Act would include both direct and insured loans in addition to grants; and the Farmers Home Administration would be divided into two administrations under a new Assistant Secretary of Agriculture for Rural Development Credit. The two administrations would be the Farm Development Administration and the Rural Enterprise and Community Development Administration. Title I also increases the size of communities eligible under the Act to 35,000 persons from 5,500.

Title II creates a Federal Rural Development Credit System which would make loans available to public and private borrowers in rural areas as defined above. Borrowers would be eligible only if they could not obtain credit elsewhere, but loans could be obtained for a wide range of rural community development projects. The Credit System is modeled on and would not replace the existing Farm Credit System, and although initially capitalized by the Federal Government at $2 billion, it would eventually, under required loan terms, be borrower-owned.

Title II further provides for technical assistance on eligible projects, which would include (Section 710) "water and sewage facilities and air pollution controls" as well as "water, and water distribution, and solid waste disposal." The same section contains authority for research and information gathering.

Amendment 153 to S. 1483 (whose purpose is identical to the following) is a bill "To further provide for the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives, for rural residences, and to associations and other entities upon which farming operations are dependent, to provide

for an adequate and flexible flow of money into rural areas, and to modernize and consolidate existing farm credit law to meet current and future rural credit needs, and for other purposes." The bill would provide for loans from basic working capital of $1 billion for, among other things, "supporting private and public development facilities", which means any facility integral to an economic development activity under the bill and accessible to the public. Economic development activities are confined to offices, factories, stores, shipping facilities, and similar activities. A Rural Community Development Bank would administer the loan provisions of the bill, and "provide technical assistance to State and local governments in the preparation and implementation of comprehensive rural community development projects and programs . . ." as well as other services.

Amendment 153 to S. 1483 is much more narrow in scope than S. 2223. For that reason our remarks will address S. 2223 only, since they can be applied to Amendment 153 as appropriate. The purpose of this statement is not to analyze the workability and merits of the financing schemes proposed in those bills but rather to explain in what ways S. 2223 (and to a limited extent Amendment 153 to S. 1483) relates to EPA programs and would affect them. Where necessary those programs will be described.

Our concern with S. 2223 stems from these interrelated considerations: does the proposed legislation cause duplication of effort or increase the number of Federal agencies providing a specific service, or services; would regional planning and pollution-control programs be adversely affected by the introduction of another project-financing agency; and are Federal pollution-control resources used efficiently to achieve maximum effect.

We concur with the July 23, 1971, statement by the Under Secretary of Agriculture and with the President's report pursuant to Title 9 of the Agriculture Act of 1970, both of which support the intent of S. 2223 and Amendment 153 of S. 1483 to provide means to channel more money, both government and private, to rural communities in order to rejuvenate or keep viable their economic bases; but which support or propose broader programs—general and specific revenue sharing—which integrate present diverse and often divergent programs to accomplish that intent.

Our major related program is the water pollution control facilities construction program. S. 2223 is related in two ways: the proposed increase of FHA grant and loan authorities; and the additional credit system proposed in Title II.

The FHA provisions increase the types of projects eligible for grants and loans while increasing the funds available; in our view the net effect would be to increase the expenditure of Federal funds for water pollution control facilities by a separate Federal agency. This effect is undesirable for two reasons: the increased division of that particular Federal government function among its agencies when a basic purpose of the Administration has been to consolidate such functions; and the closely related impact of such division on planning and the setting of priorities. We firmly believe that water pollution control programs should be concentrated in this Agency, which was created for the purpose of consolidating Federal pollution control

and environmental protection activities; and that only through tight single agency control can limited Federal pollution-control resources be used with greatest efficiency and impact.

Although the amount of Title I funds to be channeled into waste treatment projects is not specified, there would appear to be no real justification for increased funds for this purpose in view of past and proposed waste treatment works programs in EPA described below. (Similar conflicts may exist between the Farmers Home Administration programs and the water and sewer programs of HUD.)

We have requested sufficient funds ($6 billion) to cover the Federal share of all municipal treatment water pollution control needs. Our $12 billion estimate of total needs was determined from information provided by the States, direct contact with major cities, and our own studies and statistical analyses. Our estimates are intended to meet all eligible requests for funds, regardless of how small the community or the request is. In the past the majority of projects (85% of the total made) have been placed in communities of less than 25,000 persons, and 50% in communities of less than 2,500. As of April 30, 1971, out of a total of 11,761 projects, 7,318 were in communities of under 5,000; of these, 5,653 were in communities of 2,500 or less.

In order that rural communities will meet water quality standards, which will be enforced with as much vigor in rural areas as elsewhere throughout the Nation, we have taken into account their present financing needs in the following way: In December 1970, EPA estimated that the cost of constructing sewage treatment facilities in municipalities throughout the Nation to meet water quality standards and enforcement requirements, through FY–1974, was approximately $12 billion as noted above. Given that the approximately 9,000 projects which comprise the $12 billion are spread in communities throughout the country in the same manner as projects previously assisted by EPA, it is estimated that 17% of the $12 billion is for communities with populations of 5,000 or less. Therefore, approximately $2 billion of the construction needed through FY–1974 would be in municipalities with populations of 5,000 or less.

Major differences between the FHA grant program and the EPA program are the level of funding and eligible grant recipients. The FHA basic grant is authorized at 50 percent whereas an EPA grant is limited to 30 percent and can go up to 55 percent only if the State pays 25 percent of the cost of a project and certain water quality requirements are met. FHA grants may be made to "associations, including corporations not operated for profit, and public and quasi-public agencies" whereas EPA grants may be made only to States, municipalities, and interstate and intermunicipal agencies. To discourage "shopping" by prospective grant recipients, FHA has informally agreed to limit its grants to the EPA maximum and to consider only those applicants who have not been able to obtain financing through EPA due to lack of available funds to cover such projects. However, the fractionalization that would result from increasing non-EPA programs in this area is undesirable.

Section 104 of Title I provides that no grant shall be made if the project or community development is inconsistent with any planned development officially approved by a competent authority for the area in which the rural community is located. The section further stipulates

that no loan shall be made when the project is inconsistent with multijurisdictional planning, and development district area-wide planning. This determination will apparently be made when the applications are reviewed and commented on by the multi-jurisdictional agency, or country or municipal government, having jurisdiction over the area in which the proposed project is located. This change is desirable. EPA and HUD have entered into an agreement standardizing planning requirements for grant assisted projects. It appears that Section 104 can be interpreted as encouraging joint FHA-EPA-HUD standards. However, we would prefer that the bill stipulate such standardization, as well as stipulate Federally-recognized multi-jurisdictional planning authorities. Finally, in line with our principal concerns, we would prefer that any such program be required to be consistent with EPA river basin water pollution control planning.

Similarly, where Tital II, Section 710, provides for technical assistance, we are concerned about division and duplication of effort. Technical assistance personnel would cover among other things operation and administration of Federal grant programs, administration development and operation of community facilities, technical data and requirements in the following specific activities related to water: water and sewage facilities and air pollution controls; water, and water distribution, and solid waste disposal; multi-purpose water development; and comprehensive area planning.

We would point out that most of these are functions already provided for by the Congress in the statutory authorities under which this Agency operates, and that the need for anotner technical staff in another Federal agency simply does not exist.

The question has arisen as to how water quality standards are set and enforced, particularly in rural areas. Water quality standards were established under the Federal Water Pollution Control Act, as amended. The States, through public hearings, determine the uses to be made of all interstate streams, numerical criteria to protect those uses, and an implementation and enforcement plan. These items comprise the water quality standards which, after adoption through State administrative processes, are submitted to the Environmental Protection Agency for review and approval. This Agency's judgments as to the acceptability of the numerical criteria are based upon scientific and technical recommendations made by the National Advisory Technical Committee on April 1, 1968. Standards are adopted by each State acting individually but they are reviewed for regional consistency.

The enforcement of water quality standards is governed by Section 10(c)(5) of the Federal Act which provides that matter which is discharged into water so as to reduce the quality of such water below the water quality standards may be abated in accordance with the provisions of section 10(g)(1) or (2) of the Federal Act. Those sections in turn authorize the Administrator to request the Attorney General to commence suit against a polluter if the discharges under consideration can be shown to affect health or welfare. The Governor's consent is required where the pollution effect is intrastate. At least 180 days before any abatement action is initiated under subsection 10(g)(1) or (g)(2), the Administrator is required to notify the violators and other interested parties of the violation.

No distinction is made between rural and non-rural areas in setting or enforcing water quality standards.

The impact of establishing water quality standards for streams in rural areas may be significant depending upon the condition of the water prior to setting the standards and what degree of water quality is desired by the people in the area who determined the use to be made of the water. In cases where relatively common waste treatment processes need to be upgraded or treatment plants constructed, the impact may not be great.

This picture may change in areas where the water pollution problem is caused by run-offs from feedlots, fertilization practices, or other agricultural water uses. Control of pollution from such non-point sources is more difficult and in some instances not practicable given existing technology.

Finally it has been asked what a waste treatment facility for a typical rural community would cost. A common type of water pollution control facility constructed for communities with populations near 5,000 is an Extended Aeration plant. Given an Extended Aeration plant with a design population of 5,000, the following estimates apply:

Cost of constructing the plant is estimated to be	[1] $386,000
Cost of constructing the interceptor sewer is estimated to be	[1] 190,000
Cost of Engineering Services for both the plant and sewer is estimated to be	58,000
Annual Operation and Maintenance cost is estimated to be	22,000

[1] Contract cost only. Interest and amortization costs *not* included. Should a collection sewer system which is ineligible for EPA grant assistance also be needed, the estimated cost of constructing one is $808,000.

In summary, we want to emphasize first that we do not oppose efforts to channel to rural areas essential financial resources which can be applied to the betterment of those areas by re-vitalizing the rural economy. However, for the reasons advanced in the foregoing statement, we feel that provisions of the proposed legislation are undesirable in view of this Agency's programs.

We are advised by the Office of Management and Budget that there is no objection to the presentation of this report from the Administration's standpoint.

Sincerely yours,

WILLIAM D. RUCKELSHAUS,
Administrator

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 5, UNITED STATES CODE

§ 5315. Positions at level IV.

Level IV of the Executive Schedule applies to the following positions, for which the annual rate of basic pay is $28,750: [1]

* * * * * * *

(11) Assistant Secretaries of Agriculture [(3)] (4).

* * * * * * *

[1] Now $38,000. See 2 U.S.C. 358 note.

(95) Executive Director of the Federal Rural Development Credit Agency.

(96) Administrator of the Federal Rural Development Investment Incentives Administration.

§ 5316. Positions at level V.

Level V of the Executive Schedule applies to the following positions, for which the annual rate of basic pay is $28,000: [2]

* * * * * * *

(4) Administrator, [Farmers Home Administration] *Farm Development Administration, Department of Agriculture.*

* * * * * * *

(131) Administrator, Rural Enterprise and Community Development Administration, Department of Agriculture.

(132) Deputy Executive Director of the Federal Rural Development Credit Agency.

SECTION 5136 OF THE REVISED STATUTES (12 U.S.C. 24)

§ 24. Corporate powers of associations.

Upon duly making and filing articles of association and an organization certificate a national banking association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

* * * * * * *

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this chapter. The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided*, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on August 23, 1935. As used in this section the term "investment securities" shall mean marketable obligations, evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the

[2] Now $36,000. See 2 U.S.C. 358 note.

Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein, contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivison thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the thirteen banks for cooperatives or any of them or the Federal Home Loan Banks, or obligations which are insured by the Secretary of Housing and Urban Development under title XI of the National Housing Act or obligations which are insured by the Secretary of Housing and Urban Development (hereinafter in this sentence referred to as the "Secretary") pursuant to section 1713 of this title, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association, or such obligations of any local public agency (as defined in section 1460(h) of Title 42) as are secured by an agreement between the local public agency and the Secretary in which the local public agency agrees to borrow from said Secretary, and said Secretary agrees to lend to said local public agency, monies in an aggregate amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay, when due, the interest on and all installments (including the final installment) of the principal of such obligations, which monies under the terms of said agreement are required to be used for such payments, or such obligations of a public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured either (1) by an agreement between the public housing agency and the Secretary in which the public housing agency agrees to borrow from the Secretary, and the Secretary agrees to lend to the public housing agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or (2) by a pledge of annual contributions under an annual contributions contract between such public housing agency and the Secretary if such contract shall contain the covenant by the Secretary which is authorized by section 1421a(b) of Title 42, and if the maximum sum and the maximum period specified in such contract pursuant to section 1421a(b) of Title 42 shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on such obligations: *Provided*, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a

corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus. The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development, the Inter-American Development Bank or the Asian Development Bank, or obligations issued by any State or political subdivision or any agency of a State or political subdivision for housing, university, or dormitory purposes which are at the time eligible for purchases by a national bank for its own account, nor to bonds, notes and other obligations issued by the Tennessee Valley Authority or by the United States Postal Service: *Provided*, That no association shall hold obligations issued by any of said organizations as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. Notwithstanding any other provision in this paragraph, the association may purchase for its own account shares of stock issued by a corporation authorized to be created pursuant to sections 3931 to 3940 of Title 42, and may make investments in a partnership, or joint venture formed pursuant to section 3937(a) or 3937(c) of Title 42. *Notwithstanding any other provision in this paragraph, the association may purchase the stock, bonds or other obligations of any District Rural Development Credit Agency or Regional Rural Development Credit Bank created pursuant to the authority of the Rural Development Financial Resources Act of 1972.*

* * * * * * *

THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961 (TITLE III OF THE AGRICULTURAL ACT OF 1961)

TITLE III—AGRICULTURAL CREDIT

SEC. 301. (a) This title may be cited as the "Consolidated [Farmers Home Administration Act of 1961] *Farm and Rural Development Act*".

* * * * * * *

SUBTITLE A—REAL ESTATE LOANS

* * * * * * *

SEC. 304. (*a*) Loans may also be made or insured under this subtitle [(a)] to any farmowners or tenants without regard to the requirements of section 302 (1), (2), and (3) for the purposes only of land and water development, use and conservation, not including recreational uses and facilities, and [(b)] without regard to the requirements of section 302(2) and (3) to individual farmowners or tenants to finance outdoor recreational enterprises or to convert to recreational uses their farming or ranching operations, including those heretofore financed under this title.

(b) Loans may also be made or insured under this subtitle to residents of rural areas, including Indian tribes on Federal and State reservations and other federally recognized Indian tribal groups, without regard to the requirements of clauses (2) and (3) of section 302 to acquire or establish in rural areas small business enterprises to provide such residents with essential income.

SEC. 305. The Secretary shall make or insure no loan under sections 302, 303, and 304 of this title which would cause (a) the unpaid indebtedness against the farm or other security at the time the loan is made to exceed $100,000 or the [normal] value of the farm or other security, or (b) the loan to exceed the amount certified by the county committee. In determining the [normal] value of the farm, the Secretary shall consider appraisals made by competent appraisers under rules established by the Secretary. [Such appraisals shall take into consideration both the normal agricultural value and the normal market value of the farm.]

SEC. 306. (a)(1) The Secretary is also authorized to make [or], insure, *or participate with other financial institutions in making* loans to associations[, including] (*including but not limited to* corporations not operated for profit), *cooperatives that are unable to obtain credit from the banks for cooperatives*, [and] public and quasi-public agencies, *public and private technical vocational schools, Indians tribes on Federal and State reservations and other federally recognized Indian tribal groups, and others* to provide for *acquisition and improvement of lands*, the application or establishment of soil conservation practices, *provision of marketing and other services*, shifts in land use, the conservation, development, use, and control of water, *the processing, manufacture, and finishing of products from raw materials and intermediate products*, and the installation [or], improvement, *equipment, or operation* of drainage [or], waste disposal [facilities], *or other rural community development projects*, and recreational developments, all primarily serving *or providing employment for* farmers, ranchers, farm tenants, farm laborers, and other rural residents, and to furnish financial assistance or other aid in planning projects for such purposes. *The amount of financial assistance to be made available in any fiscal year shall be specified in annual Appropriation Acts.* When any loan made for a purpose specified in this paragraph is sold out of the Agricultural Credit Insurance Fund as an insured loan, the interest or other income thereon paid to an insured holder shall be included in gross income for purposes of chapter 1 of the Internal Revenue Code of 1954.

* * * * * * *

(3) No grant shall be made under paragraph [2](*2*) of this subsection in connection with any [facility] *project* unless the Secretary determines that the project (i) will serve a rural area which, *if such project is carried out*, is not likely to decline in population below that for which the [facility] *project* was designed, (ii) is designed and constructed so that adequate capacity will [be] or can be made available to serve the present population of the area to the extent feasible and to serve the reasonably foreseeable growth needs of the area, or (iii) is necessary for orderly community development consistent with a comprehensive community water [or sewer] *sewer, or other* development plan of the rural area and not inconsistent with any planned de-

velopment under State, *multijurisdictional*, county, or municipal plans approved as official plans by competent authority for the area in which the rural community is located, and the Secretary shall establish regulations requiring the submission of all applications for financial assistance under this [act] *section* to the *multijurisdictional substate areawide general purpose planning and development agency that has been officially designated as a clearing house agency under Office of Management and Budget Circular A-95 and to the* county or municipal government *having jurisdiction over the area* in which the proposed project is to be located for review and comment [by such agency] within a designated period of time *concerning among other considerations, the effect of the project upon the areawide goals and plans of such agency or government. No loan under this section shall be made that is inconsistent with such multijurisdictional planning and development district areawide plan. The Secretary is authorized to reimburse such agency or government for the cost of making the required review.* Until October 1, [1971] *1973*, the Secretary may make grants prior to the completion of the comprehensive plan, if the preparation of such plan has been undertaken for the area.

* * * * * * *

[(5) No loan or grant shall be made under this subsection which would cause the unpaid principal indebtedness of any association under this title and under the Act of August 28, 1937, as amended, together with the amount of any assistance in the form of a grant to exceed $4,000,000 at any one time.]

(6) The Secretary may make grants aggregating not to exceed $15,000,000 in any fiscal year to public bodies or such other agencies as the Secretary may determine having authority to prepare [official] comprehensive plans for the development of water or [sewer systems] *waste disposal systems, community services and facilities, and areawide development* in rural areas which do not have funds available for immediate undertaking of the preparation of such plan.

7(A) Rural areas [,] for the purposes of [water and waste disposal projects shall not include any area in any city or town which has a population in excess of 5,500 inhabitants] *this title means all the territory of a State, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, and Guam that is not within the outer boundary of any city having a population of fifty thousand or more and its immediately adjacent urbanized and urbanizing area with a population density of more than one hundred persons per square mile, as determined by the Secretary of Agriculture according the latest decennial census of the United States. Special consideration shall be given to areas that do not include a city having a population of more than ten thousand.*

(B) The term "rural community development project" for the purposes of this title means any project undertaken by private or industrial enterprise or by any State, regional or local development authority, any public work project, or any community facility or service that contributes or will contribute to the objective of a balanced national growth policy as provided in setcion 901(a) of the Agricultural Act of 1970 (Public Law 91-524) and section 702 of the Housing and Urban Development Act of 1970, or the enhancemnt of any rural community or rural area as a place to

live and make a living. Such term specifically includes, but is not limited to, projects that provide increased employment or income for or directly benefit rural residents and that—

(I) establish or improve public works, or community service or facilities,

(II) encourage private investment in, or promote the establishment and expansion of, industrial or commercial enterprises including but not limited to investor-owned and cooperative marketing and other service associations and enterprises;

(III) provide manpower development and training;

(IV) improve the quality and accessibility of rural community facilities and services;

(V) promote the conservation, development, and proper utilization of natural resources;

(VI) establish and improve public educational facilities including but not limited to technical and vocational schools, and encourage the development of improved educational methods;

(VII) establish and improve land, water, and air transportation systems and services for goods and passengers;

(VIII) assist in the solution of problems related to law enforcement activities;

(IX) establish decent, safe, sanitary, and comfortable housing;

(X) establish and improve health facilities and services and generally promote improved health and nutrition of residents of rural areas;

(XI) provide direct financial incentives to industry to create jobs in rural areas; and

(XII) establish and improve facilities and services that will enhance the quality of the environment.

* * * * * * *

(11) In the making of loans and grants for community water facilities under paragraphs (1) and (2) of this subsection the Secretary shall accord the highest priority to the application of any municipality or other public agency (including an Indian tribe on a Federal or State reservation or other federally recognized Indian tribal group) in a rural community having a population not in excess of five thousand five hundred which has a community water supply system, where the Secretary determines that due to unanticipated diminution or deterioration of its water supply immediate action is needed. The Secretary shall utilize the Soil Conservation Service in rendering technical assistance to applicants under this paragraph to the extent he deems appropriate.

Sec. 307. (a) The period for repayment of loans under this subtitle shall not exceed forty years. The Secretary shall from time to time establish the interest rate or rates at which loans for various purposes will be made or insured under this subtitle but not in excess of 5 per centum per annum ; *except that loans (other than guaranteed loans, loans to public bodies or nonprofit associations (including Indian tribes on Federal and State reservations and other federally recognized Indian tribal groups) for community facilities, or loans of a type authorized by section 306(a)(1) prior to its amendment by the Rural Development Act of 1972) made or insured under section 304(b), 306(a)(1), or 310A shall bear interest at a rate, prescribed by the Secretary, not less than a rate*

determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States comparable to the average maturities of such loans, adjusted in the judgment of the Secretary of the Treasury to provide for a rate comparable to the rates prevailing in the private market for similar loans and considering the Secretary's insurance of the loans, plus an additional charge, prescribed by the Secretary, to cover the Secretary's losses and cost of administration, which charge shall be deposited in the Rural Development Insurance Fund: Provided, That the rate so prescribed shall be adjusted to the nearest one-eighth of 1 per centum. The borrower shall pay such fees and other charges as the Secretary may require.

* * * * * * *

SEC. 309(a) The fund established pursuant to section 11(a) of the Bankhead-Jones Farm Tenant Act, as amended, shall hereafter be called the Agricultural Credit Insurance Fund and is hereinafter in this subtitle referred to as the "fund". The fund shall remain available as a revolving fund for the discharge of the obligations of the Secretary under agreements insuring loans under this subtitle and loans and mortgages insured under prior authority.

* * * * * * *

(f) The Secretary may utilize the fund—

(1) to make loans which could be insured under this subtitle whenever the Secretary has reasonable assurance that they can be sold without undue delay, and may sell and insure such loans. The aggregate of the principal of such loans made and not disposed of shall not exceed [$100,000,000] *$500,000,000* at any one time;

* * * * * * *

SEC. 309A. (a) There is hereby created the Rural Development Insurance Fund (hereinafter in this section referred to as the "Insurance Fund") which shall be used by the Secretary as a revolving fund for the discharge of the obligations of the Secretary under contracts guaranteeing or insuring rural development loans. For the purpose of this section "rural development loans" shall be those provided for by sections 304(b), 306(a)(1), 310A, and 312(b), except loans (other than for water systems and waste disposal facilities) of a type authorized by section 306(a)(1) prior to its amendment by the Rural Development Act of 1972.

(b) The assets and liabilities of the Agricultural Credit Insurance Fund referred to in section 309(a) applicable to loans for water systems and waste disposal facilities under section 306(a)(1) are hereby transferred to the Insurance Fund. Such assets (including the proceeds thereof) and liabilities and rural development loans guaranteed or insured pursuant to this title shall be subject to the provisions of this section and section 308.

(c) Moneys in the Insurance Fund not needed for current operations shall be deposited in the Treasury of the United States to the credit of the Insurance Fund or invested in direct obligations of the United States or obligations guaranteed by the United States. The Secretary may purchase with money in the Insurance Fund any notes issued by the Secretary to the Secretary of the Treasury for the purpose of obtaining money for the Insurance Fund.

(d) The Secretary is authorized to make and issue notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for dis-

charging obligations under this section and for making loans, advances, and authorized expenditures out of the Insurance Fund. Such notes shall be in such form and denominations and have such maturities and be subject to such terms and conditions as may be prescribed by the Secretary with the approval of the Secretary of the Treasury. Such notes shall bear interest at a rate fixed by the Secretary of the Treasury, taking into consideration the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the average maturities of rural development loans made, guaranteed, or insured under this title. The Secretary of the Treasury is authorized and directed to purchase any notes of the Secretary issued hereunder, and, for that purpose, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which such securities may be issued under such Act, as amended, are extended to include the purchase of notes issued by the Secretary hereunder. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States.

(e) Notes and security acquired by the Secretary in connection with rural development loans made, guaranteed, or insured under this title or transferred by subsection (b) of this section shall become a part of the Insurance Fund. Notes may be held in the Insurance Fund and collected in accordance with their terms or may be sold by the Secretary with or without agreements for insurance thereof at the balance due thereon, or on such other basis as the Secretary may determine from time to time. All net proceeds from such collections, including sales of notes or property, shall be deposited in and become a part of the Insurance Fund.

(f) The Secretary shall deposit in the Insurance Fund any charges collected for loan services provided by the Secretary as well as charges assessed for losses and costs of administration in connection with making, guaranteeing, or insuring rural development loans under this title.

(g) The Secretary may utilize the Insurance Fund—

(1) to make rural development loans which could be insured under this title whenever he has a reasonable assurance that they can be sold without undue delay, and he may sell and insure such loans;

(2) to pay the interest to which the holder of insured notes is entitled on loans heretofore or hereafter insured accruing between the date of any prepayments by the borrower and the date of transmittal of any such prepayments to the holder. In the discretion of the Secretary, prepayments other than final payments need not be remitted to the holder until due;

(3) to pay to the holder of insured notes any defaulted installment or, upon assignment of the note to the Secretary at the Secretary's request, the entire balance due on the loan;

(4) to purchase notes in accordance with contracts of insurance heretofore or hereafter entered into by the Secretary;

(5) to make payments in compliance with the Secretary's obligations under contracts of guarantee entered into by him;

(6) to pay taxes, insurance, prior liens, expenses necessary to make fiscal adjustments in connection with the application and transmittal of collections or necessary to obtain credit reports on

applicants or borrowers or property appraisals, and other expenses and advances authorized in section 335(a) of this title in connection with insured loans. Such items may be paid in connection with guaranteed loans after or in connection with acquisition by the Secretary of such loans or security therefor after default, to an extent determined by the Secretary to be necessary to protect the interest of the Government;

(7) to pay the difference between interest payments by borrowers and interest to which holders of insured notes are entitled under contracts of insurance (exclusive of contracts of guarantee) heretofore or hereafter entered into by the Secretary; and

(8) to pay the Secretary's costs of administration of the rural development loan program, including costs of the Secretary incidental to guaranteeing rural development loans under this title.

(h) When any loan is sold out of the Insurance Fund as an insured loan, the interest or other income thereon paid to an insured holder shall be included in gross income for purposes of chapter 1 of the Internal Revenue Code of 1954.

* * * * * * *

SEC. 310. (a) The Secretary may also make and insure loans to public, private, or cooperative organizations organized for profit or nonprofit, to Indian tribes on Federal and State reservations or other federally recognized Indian tribal groups, or to individuals for the purpose of improving, developing, or financing business, industry, and employment and improving the economic and environmental climate in rural communities, including pollution abatement and control.

(b) The Secretary may make grants, not to exceed $50,000,000 annually, to eligible applicants under this section for pollution abatement and control projects in rural areas. No such grant shall exceed 50 per centum of the development cost of such a project.

SUBTITLE B—OPERATING LOANS

SEC. 311. (a) The Secretary is authorized to make loans under this subtitle to farmers and ranchers in the United States and in Puerto Rico and the Virgin Islands who (1) are citizens of the United States, (2) have a farm background and training or farming experience which the Secretary determines is sufficient to assure reasonable prospects of success in the proposed farming operation, (3) are or will become operators of not larger than family farms, and (4) are unable to obtain sufficient credit elsewhere to finance their actual needs at reasonable rates and terms, taking into consideration prevailing private and cooperative rates and terms in the community in or near which the applicant resides for loans for similar purposes and periods of time.

(b)(1) Loans may also be made under this subtitle without regard to the requirements of clauses (2) and (3) of subsection (a) to youths who are rural residents to enable them to operate enterprises in connection with their participation in 4-H Clubs, Future Farmers of America, and similar organizations and for the purposes specified in section 312.

(2) A person receiving a loan under this subsection who executes a promissory note therefor shall thereby incur full personal liability for

the indebtedness evidenced by such note in accordance with its terms free of any disability of minority.

(3) For loans under this subsection the Secretary may accept the personal liability of a cosigner of the promissory note in addition to the borrowers' personal liability.

SEC. 312. (a) Loans may be made under this subtitle for (1) paying costs incident to reorganizing the farming system for more profitable operation, (2) purchasing livestock, poultry, and farm equipment, (3) purchasing feed, seed, fertilizer, insecticides, and farm supplies and to meet other essential farm operating expenses including cash rent, (4) financing land and water development, use, and conservation, (5) without regard to the requirements of section 311(a)(2) and (3) to individual farmers or ranchers to finance outdoor recreational enterprises or to convert to recreational uses their farming or ranching operations, including those heretofore financed under this title, (6) enterprises needed to supplement farm income, (7) refinancing existing indebtedness, (8) other farm and home needs including but not limited to family subsistence, and (9) for loan closing costs.

(b) Loans may also be made under this subtitle to residents of rural areas, including Indian tribes on Federal and State reservations and other federally recognized Indian tribal groups, without regard to the requirements of clauses (2) and (3) of section 311 (a) to operate in rural areas small business enterprises to provide such residents with essential income.

(c) Loans may also be made to eligible applicants under this subtitle for pollution abatement and control projects in rural areas.

(d) The Secretary may make grants, not to exceed $25,000,000 annually, to eligible applicants under this subtitle for pollution abatement and control projects in rural areas. No such grant shall exceed 50 per centum of the development cost of such a project.

SEC. 313. The Secretary shall make no loan under this subtitle (1) which would cause the total principal indebtedness outstanding at any one time for loans made under this subtitle and under section 21 of the Bankhead-Jones Farm Tenant Act, as amended, to exceed [$35,000] *$50,000*, (2) for the purchasing or leasing of land other than for cash rent, or for carrying on any land leasing or land purchasing program, or (3) in excess of an amount certified by the county committee.

* * * * * * *

SEC. 317. Loans meeting the requirements of this subtitle may be insured, or made to be sold and insured, in accordance with and subject to sections 308 and 309 and the last sentence of section 307 of this title.

SEC. 331. For the purposes of this title and for the administration of assets under the jurisdiction of the Secretary of Agriculture pursuant to the Farmers Home Administration Act of 1946, as amended, the Bankhead-Jones Farm Tenant Act, as amended, the Act of August 28, 1937, as amended, the Act of April 6, 1949, as amended, the Act of August 31, 1954, as amended, and the powers and duties of the Secretary under any other Act authorizing agricultural credit, the Secretary may assign and transfer such powers, duties, and assets to the [Farmers Home Administration, to be headed by an Administrator, appointed by the President, by and with the advice and consent of the Senate, without regard to the civil service laws or the Classification Act of 1949, as amended, who shall receive basic

compensation as provided by law for that office] *Farm Development Administration and the Rural Enterprise and Community Development Administration, each of which shall be headed by an Administrator, appointed by the President, by and with the advice and consent of the Senate. Each such Administrator shall be subject to the supervision and direction of an Assistant Secretary of Agriculture—Rural Development Credit who shall be additional to the Assistant Secretaries of Agriculture otherwise authorized by law and shall be appointed by the President, by and with the advice and consent of the Senate.*

The Secretary may—

* * * * * * *

(g) obtain fidelity bonds protecting the Government against fraud and dishonesty of officers and employees of the Farmers Home Administration in lieu of faithful performance of duties bonds under section 14, title 6, United States Code, and regulations issued pursuant thereto, but otherwise in accordance with the provisions thereof.

* * * * * * *

SEC. 333. In connection with loans made or insured under this title, the Secretary shall require—

* * * * * * *

(b) except for loans under sections 306, *310A*, 314, and 321(b)(2) of this title, the county committee to certify in writing that the applicant meets the eligibility requirements for the loan, and has the character, industry, and ability to carry out the proposed operations, and will, in the opinion of the committee, honestly endeavor to carry out his undertakings and obligations[; and for loans under said sections, the Secretary shall require the recommendation of the county committee as to the making or insuring of the loan];

* * * * * * *

SEC. 343. As used in this title * * * , *and (4) the word "insure" as used in this title includes guarantee, which means to guarantee the payment of a loan originated, held, and serviced by a private financial agency of other lender approved by the Secretary, and (5) the term "contract of insurance" includes a contract of guarantee.*

SEC. 344. No loan (other than one to a public body or nonprofit association (including Indian tribes on Federal and State reservations or other federally recognized Indian tribal groups) for community facilities or one of a type authorized by section 306(a)(1) prior to its amendment by the Rural Development Act of 1972) shall be made by the Secretary either for sale as an insured loan or otherwise under section 304(b), 306(a)(1), 310A, 312(b), or 312(c) unless the Secretary shall have determined that no other lender is willing to make such loan and assume 10 per centum of any loss sustained thereon. No contract guaranteeing any such loan by such other lender shall require the Secretary to participate in more than 90 per centum of any loss sustained thereon.

WATERSHED PROTECTION AND FLOOD PREVENTION ACT, AS AMENDED

That erosion, floodwater, and sediment damages in the watersheds of the rivers and streams of the United States, causing loss of life and damage to property, constitute a menace to the national wel-

fare; and it is the sense of Congress that the Federal Government should cooperate with States and their political subdivisions, soil or water conservation districts, flood prevention or control districts, and other local public agencies for the purpose of preventing such damages, [and] of furthering the conservation, development, utilization, and disposal of water, *and the conservation and utilization of land* and thereby of preserving [and], protecting, *and improving* the Nation's land and water resources *and the quality of the environment.*

SEC. 2. For the purposes of this Act, the following terms shall mean:

The "Secretary"—the Secretary of Agriculture of the United States.

"Works of improvement"—any undertaking for—

(1) flood prevention (including structural and land treatment measures) [or],

(2) the conservation, development, utilization, and disposal of water, *or*

(3) *the conservation and proper utilization of land*

in watershed or subwatershed areas not exceeding two hundred and fifty thousand acres and not including any single structure which provides more than twelve thousand five hundred acre-feet of floodwater detention capacity, and more than twenty-five thousand acre-feet of total capacity. No appropriation shall be made for any plan involving an estimated Federal contribution to construction costs in excess of $250,000, or which includes any structure which provides more than twenty-five hundred acre-feet of total capacity unless such plan has been approved by resolutions adopted by the appropriate committees of the Senate and House of Representatives: *Provided*, That in the case of any plan involving no single structure providing more than 4,000 acre-feet of total capacity the appropriate committees shall be the Committee on Agriculture and Forestry of the Senate and the Committee on Agriculture of the House of Representatives and in the case of any plan involving any single structure of more than 4,000 acre-feet of total capacity the appropriate committees shall be the Committee on Public Works of the Senate and the Committee on Public Works of the House of Representatives, respectively. A number of such subwatersheds when they are component parts of a larger watershed may be planned together when the local sponsoring organizations so desire.

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SEC. 3. In order to assist local organizations in preparing and carrying out plans for works of improvement, the Secretary is authorized, upon application of local organizations if such application has been submitted to, and not disapproved within 45 days by, the State agency having supervisory responsibility over programs provided for in this Act, or by the Governor if there is no State agency having such responsibility—

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(5) to obtain the cooperation and assistance of other Federal agencies in carrying out the purposes of this section[.];

(6) to enter into agreements with landowners, operators, and occupiers, individually or collectively, based on conservation plans

of such landowners, operators, and occupiers which are developed in cooperation with and approved by the soil and water conservation district in which the land described in the agreement is situated, to be carried out on such land during a period of not to exceed ten years, providing for changes in cropping systems and land uses and for the installation of soil and water conservation practices and measures needed to conserve and develop the soil, water, woodland, wildlife, and recreation resources of lands within the area included in plans for works of improvement, as provided for in such plans, including watershed or subwatershed work plans in connection with the eleven watershed improvement programs authorized by section 13 of the Act of December 22, 1944 (58 Stat. 887), as amended and supplemented. Applications for assistance in developing such conservation plans shall be made in writing to the soil and water conservation district involved, and the proposed agreement shall be reviewed by such district. In return for such agreements by landowners, operators, and occupiers the Secretary shall agree to share the costs of carrying out those practices and measures set forth in the agreement for which he determines that cost sharing is appropriate and in the public interest. The portion of such costs, including labor, to be shared shall be that part which the Secretary determines is appropriate and in the public interest for the carrying out of the practices and measures set forth in the agreement, except that the Federal assistance shall not exceed the rate of assistance for similar practices and measures under existing national programs. The Secretary may terminate any agreement with a landowner, operator, or occupier by mutual agreement if the Secretary determines that such termination would be in the public interest, and may agree to such modifications of agreements, previously entered into hereunder, as he deems desirable to carry out the purposes of this paragraph or to facilitate the practical administration of the agreements provided for herein. Notwithstanding any other provision of law, the Secretary, to the extent he deems it desirable to carry out the purposes of this paragraph, may provide in any agreement hereunder for (1) preservation for a period not to exceed the period covered by the agreement and an equal period thereafter of the cropland, crop acreage, and allotment history applicable to land covered by the agreement for the purpose of any Federal program under which such history is used as a basis for an allotment or other limitation on the production of any crop; or (2) surrender of any such history and allotments.

SEC. 4. The Secretary shall require as a condition to providing Federal assistance for the installation of works of improvement that local organizations shall—

(1) acquire, or with respect to interests in land to be acquired by condemnation provide assurances satisfactory to the Secretary that they will acquire, without cost to the Federal Government *from funds appropriated for the purposes of this Act*, such land, easements, or rights-of-way as will be needed in connection with works of improvement installed with Federal assistance: *Provided*, That when a local organization agrees to operate and main-

tain any reservoir or other area included in a plan for public fish and wildlife or recreational development, the Secretary shall be authorized to bear not to exceed one-half of the costs of (a) the land, easements, or rights-of-way acquired or to be acquired by the local organization for such reservoir or other area, and (b) minimum basic facilities needed for public health and safety, access to, and use of such reservoir or other area for such purposes: *Provided further*, That the Secretary shall be authorized to participate in recreational development in any watershed project only to the extent that the need therefor is demonstrated in accordance with standards established by him, taking into account the anticipated man-days of use of the projected recreational development and giving consideration to the availability within the region of existing water-based outdoor recreational developments: *Provided further*, That the Secretary shall be authorized to participate in not more than one recreational development in a watershed project containing less than seventy-five thousand acres, or two such developments in a project containing between seventy-five thousand and one hundred and fifty thousand acres, or three such developments in projects exceeding one hundred and fifty thousand acres: *Provided further*, That when the Secretary and a local organization have agreed that the immediate acquisition by the local organization of land, easements, or rights-of-way is advisable for the preservation of sites for works of improvement included in a plan from encroachment by residential, commercial, industrial, or other development, the Secretary shall be authorized to advance to the local organization from funds appropriated for construction of works of improvment the amounts required for the acquisition of such land, easements, or rights-of-way; and, except where such costs are to be borne by the Secretary, such advance shall be repaid by the local organization, with interest, prior to construction of the works of improvement, for credit to such construction funds: *Provided further, That with respect to privately owned Indian lands the Secretary is authorized to pay the cost of lands, easements, and rights-of-way needed for works of improvement on such lands.*

(2) assume (A) such proportionate share, as is determined by the Secretary to be equitable in consideration of national needs and assistance authorized for similar purposes under other Federal programs, of the costs of installing any works of improvement, involving Federal assistance (excluding engineering costs), which is applicable to the agricultural phases of the conservation, development, utilization, and disposal of water or for fish and wildlife [or recreational development, and] *development, recreational development, water quality management, or the conservation and proper utlization of land, and* (B) all of the cost of installing any portion of such works applicable to other purposes except that any part of the construction cost (including engineering costs) applicable to flood prevention and features relating thereto shall be borne by the Federal Government and paid for by the Secretary out of funds appropriated for the purposes of this act: *Provided*, That, in addition to and without limitation on the authority of the Secretary to make loans or advancements under section 8, the Secretary may pay for any storage of water for present or anticipated future

demands or needs for municipal or industrial water included in any reservoir structure constructed or modified under the provisions of this Act [not to] *as hereinafter provided: Provided further, That the cost of water storage to meet future demands may not* exceed 30 per centum of the total estimated cost of such reservoir structure [where] *and* the local organization [gives] *shall give* reasonable assurances, and there is evidence, that such demands for the use of such storage will be made within a period of time which will permit repayment [of the cost of such water supply storage] within the life of the reservoir structure *of the cost of such storage: Provided further*, That the [local organization shall agree prior to initiation of construction or modification of any reservoir structure including such water supply storage to repay the cost of such water supply storage for anticipated future demands: *And provided further*, That the entire amount of the cost paid by the Secretary for such water supply storage] *Secretary shall determine prior to initiation of construction or modification of any reservoir structure including such water supply storage that there are adequate assurances by the local organization or by an agency of the State having authority to give such assurances, that the Secretary will be reimbursed the cost of water supply storge for anticipated future demands, and will pay for not less than 50 per centum of the cost of storage for present water supply demands: And provided further, That the cost to be borne by the local organization* for anticipated future demands [shall] *may* be repaid within the life of the reservoir structure but in no event to exceed fifty years after the reservoir structure is first used for the storage of water for *anticipated future* water supply [purposes] *demands*, except that (1) no [repayment] *reimbursement* of the cost of such water supply storage for anticipated future demands need be made until such supply is first used, and (2) no interest shall be charged on the cost of such water supply storage for anticipated future demands until such supply is first used, but in no case shall the interest-free period exceed ten years. The interest rate used for purposes of computing the interest on the unpaid balance shall be determined in accordance with the provisions of section 8.

SEC. 5. * * *

(4) Any plan for works of improvement involving an estimated Federal contribution to construction costs in excess of $250,000 or including any structure having a total capacity in excess of twenty-five hundred acre-feet (a) which includes *works of improvement for* reclamation or irrigation [works], or which affects public or other lands or wildlife under the jurisdiction of the Secretary of the Interior, (b) which includes Federal assistance for floodwater detention structures, (c) *which includes features which may affect the public health, or* (d) *which includes measures for control or abatement of water pollution*, shall be submitted to the Secretary of the Interior [or], the Secretary of the Army, *the Secretary of Health, Education, and Welfare, or the Administrator of the Environmental Protection Agency*, respectively, for his views and recommendations at least thirty days prior to transmission of the plan to the Congress through the President.

The views and recommendations of the Secretary of the Interior, [and] the Secretary of the Army, *the Secretary of Health, Education, and Welfare, and the Administrator of the Environmental Protection Agency,* if received by the Secretary prior to the expiration of the above thirty-day period, shall accompany the plan transmitted by the Secretary to the Congress through the President.

TITLE III OF THE BANKHEAD-JONES FARM TENANT ACT

SEC. 32. To effectuate the program provided for in section 31, the Secretary is authorized—

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(e) To cooperate with Federal, State, territorial, and other public agencies and local nonprofit organizations in developing plans for a program of land conservation and land utilization, to assist in carrying out such plans by means of loans to State and local public agencies and local nonprofit organizations designated by the State legislature or the Governor, to conduct surveys and investigations relating to conditions and factors affecting, and the methods of accomplishing most effectively the purposes of this title, and to disseminate information concerning these activities. Loans to State and local public agencies and to local nonprofit organizations shall be made only if such plans have been submitted to, and not disapproved within 45 days by, the State agency having supervisory responsibility over such plans, or by the Governor if there is no such State agency. No appropriation shall be made for any single loan under this subsection in excess of $250,000 unless such loan has been approved by resolutions adopted by the Committee on Agriculture and Forestry of the Senate and the Committee on Agriculture of the House of Representatives. Loans under this subsection shall be made under contracts which will provide, under such terms and conditions as the Secretary deems appropriate, for the repayment thereof in not more than 30 years, with interest at the average rate, as determined by the Secretary of the Treasury, payable by the Treasury on its marketable public obligations outstanding at the beginning of the fiscal year in which the loan is made, which are neither due nor callable for redemption for 15 years from date of issue. Repayment of principal and interest on such loans shall begin within 5 years.

The Secretary shall also be authorized in providing assistance for carrying out plans developed under this title:

(1) To provide technical and other assistance, and to pay for any storage of water for present or anticipated future demands or needs for rural community water supply included in any reservoir structure constructed or modified pursuant to such plans: Provided, That the cost of water storage to meet future demands may not exceed 30 per centum of the total estimated cost of such reservoir structure and the public agency or local nonprofit organization shall give reasonable assurances, and there is evidence, that such demands for the use of such storage will be made within a period of time which will permit repayment of the cost of such water supply storage within the life of the reservoir structure: Provided

further, That the public agency or local nonprofit organization prior to initiation or construction or modification of any reservoir structure including water supply storage, making provision satisfactory to the Secretary to pay for not less than 50 per centum of the cost of storage for present water supply demands, and all of the cost of storage for anticipated future demands: And provided further, That the cost to be borne by the public agency or local nonprofit organization for anticipated future demands may be repaid within the life of the reservoir structure but in no event to exceed fifty years after the reservoir structure is first used for the storage of water for anticipated future water supply demands except that (1) no payment on account of such cost need be made until such supply is first used, and (2) no interest shall be charged on such cost until such supply is first used, but in no case shall the interest-free period exceed ten years. The interest rate used for purposes of computing the interest on the unpaid balance shall be the average rate, as determined by the Secretary of the Treasury, payable by the Treasury upon its marketable public obligations outstanding at the beginning of the fiscal year in which the advancement for such water supply is first made, which are neither due nor callable for redemption for fifteen years from date of issue;

(2) To provide, for the benefit of rural communities, technical and other assistance and such proportionate share of the costs of installing measures and facilities for water quality management, for the control and abatement of agriculture-related pollution, for the disposal of solid wastes, and for the storage of water in reservoirs, farm ponds, or other impoundments, together with necessary water withdrawal appurtenances for rural fire protection, as is determined by the Secretary to be equitable in consideration of national needs and assistance authorized for similar purposes under other Federal programs.

SECTION 20 OF THE REVISED STATUTES (7 U.S.C. 2201)

SEC. 520. There shall be at the seat of government a Department of Agriculture, the general design and duties of which shall be to acquire and to diffuse among the people of the United States useful information on subjects connected with agriculture *and rural development*, in the most general and comprehensive sense of [that word] *those terms*, and to procure, propagate, and distribute among the people new and valuable seeds and plants.

SECTION 526 OF THE REVISED STATUTES (7 U.S.C. 2204)

SEC. 526. (*a*) The Secretary of Agriculture shall procure and preserve all information concerning agriculture *and rural development* which he can obtain by means of books and correspondence, and by practical and scientific experiments, accurate records of which experiments shall be kept in his office, by the collection of statistics, and by any other appropriate means within his power; he shall collect new and valuable seeds and plants; shall test, by cultivation, the value of such of them as may require such tests; shall propagate such as may be worthy of propagation; and shall distribute them among agriculturists; *and he shall advise the President, other members of his Cabinet,*

and the Congress on policies and programs designed to improve the quality of life for people living in the rural and nonmetropolitan regions of the Nation.

(b) The Secretary of Agriculture is authorized and directed to provide leadership and coordination within the executive branch and shall assume responsibility for coordinating a nationwide rural development program utilizing the services of executive branch departments and agencies and the agencies, bureaus, offices, and services of the Department of Agriculture in coordination with rural development programs of State and local governments. In carrying out this responsibility the Secretary of Agriculture shall establish employment, income, population, housing, and quality of community services and facilities goals for rural development and report annually prior to September 1 to Congress on progress in attaining such goals. The Secretary is authorized to initiate or expand research and development efforts related to solution of problems of rural water supply, rural sewage and solid waste management, rural housing, and rural industrialization.

THE SOIL CONSERVATION AND DOMESTIC ALLOTMENT ACT

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AGRICULTURAL CONSERVATION POLICY AND ENUMERATION OF PURPOSES

SEC. 7. (a) It is hereby declared to be the policy of this Act also to secure, and the purposes of this Act shall also include, (1) preservation and improvement of soil fertility; (2) promotion of the economic use and conservation of land; (3) diminution of exploitation and wasteful and unscientific use of national soil resources; (4) the protection of rivers and harbors against the results of soil erosion in aid of maintaining the navigability of water and water courses and in aid of flood control; [and] (5) reestablishment, at as rapid a rate as the Secretary of Agriculture determines to be practicable and in the general public interest, of the ratio between the purchasing power of the net income per person on farms and that of the income per person not on farms that prevailed during the five-year period August 1909–July 1914, inclusive, as determined from statistics available in the United States Department of Agriculture, and the maintenance of such ratio; *and (6) prevention and abatement of agriculture-related pollution.* The powers conferred under sections 7 to 14, inclusive, of this Act shall be used to assist voluntary action calculated to effectuate the purposes specified in this section. Such powers shall not be used to discourage the production of supplies of foods and fibers sufficient to maintain normal domestic human consumption as determined by the Secretary from the records of domestic human consumption in the years 1920 to 1929, inclusive, taking into consideration increased population, quantities of any commodity that were forced into domestic consumption by decline in exports during such period, current trends in domestic consumption and exports of particular commodities, and the quantities of substitutes available for domestic consumption within any general class of food commodities. In carrying out the purposes of this section due regard shall be given to the maintenance of a continuous and stable supply of agricultural commodities adequate to meet consumer demand at prices fair to both producers and consumers.

AUTHORITY OF THE SECRETARY TO MAKE PAYMENTS OR GRANTS OF AID DIRECTLY TO FARMERS

SEC. 8. (a) Repealed.

(b) The Secretary shall have power to carry out the purposes specified in clauses (1), (2), (3), (4), [and] (5), *and* (*6*) of section 7(a) by making payments or grants of other aid to agricultural producers, including tenants and sharecroppers, in amounts determined by the Secretary to be fair and reasonable in connection with the effectuation of such purposes during the year with respect to which such payments or grants are made, and measured by (1) their treatment or use of their land, or a part thereof, for soil restoration soil conservation, [or] the prevention of erosion, *or the prevention or abatement of agriculture-related pollution;* (2) changes in the use of their land; (3) their equitable share, as determined by the Secretary, of the normal national production of any commodity or commodities required for domestic consumption; [or] (4) their equitable share, as determined by the Secretary, of the national production of any commodity or commodities required for domestic consumption and exports adjusted to reflect the extent to which their utilization of cropland on the farm conforms to farming practices which the Secretary determines will best effectuate the purposes specified in section 7(a); or (5) any combination of the above. Clauses (1) and (2) above shall be construed to cover water conservation and the beneficial use of water on individual farms, including measures to prevent runoff, the building of check dams and ponds, and providing facilities for applying water to the land. In determining the amount of any payment or grant measured by (1) or (2) the Secretary shall take into consideration the productivity of the land affected by the farming practices adopted during the year with respect to which such payment is made. In carrying out the provisions of this section in the States of the Union, except Alaska, the Secretary is directed to utilize the services of local and State committees selected as hereinafter provided. The Secretary shall designate local administrative areas as units for administration of programs under this section. No such local area shall include more than one county or parts of different counties. Farmers within any such local administrative area, and participating or cooperating in programs administered within such area, shall elect annually from among their number a local committee of not more than three members for such area. The members of the local committees shall, in a county convention, nominate and elect a county committee which shall consist of three members who are farmers in the county. At the first county convention held on or after the effective date of this sentence, one member of the county committee shall be elected for one year; one member shall be elected for two years; and one member shall be elected for three years. Thereafter, each member of a county committee shall be elected for a term of three years. No member of the county committee shall be elected for more than three consecutive terms (exclusive of any term which began prior to the effective date of this sentence). The local committee shall select a secretary and may utilize the county agricultural extension agent for such purpose. The county committee shall select a secretary who may be the county agricultural extension agent. If such county agricultural extension agent shall not have

been elected secretary of such committee, he shall be ex officio a member of the county committee. The county agricultural extension agent shall not have the power to vote. In any county in which there is only one local committee the local committee shall also be the county committee. In each State there shall be a State committee for the State composed of not less than three or more than five farmers who are legal residents of the State and who are appointed by the Secretary. The State director of the Agricultural Extension Service shall be ex officio a member of such State committee. The ex officio members of the county and State committees shall be in addition to the number of members of such committee, hereinbefore specified. The Secretary shall make such regulations as are necessary relating to the selection and exercise of the functions of the respective committees, and to the administration, through such committees, of such programs. In carrying out the provisions of this section, the Secretary shall, as far as practicable, protect the interests of tenants and sharecroppers; is authorized to utilize the agricultural extension service and other approved agencies; shall accord such recognition and encouragement to producer-owned and producer-controlled cooperative associations as will be in harmony with the policy toward cooperative associations set forth in existing Acts of Congress and as will tend to promote efficient methods of marketing and distribution; shall not have power to acquire any land or any right of interest therein; shall, in every practicable manner, protect the interests of small producers; and shall in every practical way encourage and provide for soil-conserving and soil-rebuilding practices rather than the growing of soil-depleting crops. Rules and regulations governing payments or grants under this subsection shall be as simple and direct as possible, and, wherever practicable, they shall be classified on two bases: (a) Soil-depleting crops and practices, (b) soil-building crops and practices.

Notwithstanding any other provision of law, in making available conservation materials consisting of seeds, seed inoculants, fertilizers, liming and other soil-conditioning materials, trees, or plants, or in making available soil-conserving or soil-building services *or pollution prevention or abatement aids*, to agricultural producers under this subsection, the Secretary may make payments in advance of determination of performance by the producers, to persons who fill purchase orders covering approved conservation materials or covering soil-conserving or soil-building services *or pollution prevention or abatement aids*, furnished to producers, or who render services to the Secretary in delivering to producers approved conservation materials, for the the carrying out, by the producers, of soil-building or soil-conserving practices *or pollution prevention or abatement practices* approved by the Secretary. The price at which purchase orders for any conservation materials or services are filled may be limited to a fair price fixed in accordance with regulations prescribed by the Secretary.

Appropriations are hereby authorized for the purchase in advance of the program year for which the appropriation is made of seeds, fertilizers, lime, trees, or any other farming materials or any soil-terracing services, and making grants thereof to agricultural producers to aid them in carrying out farming practices approved by the Secretary in programs under this Act; for the reimbursement of any Federal, State, or local government agency for fertilizers, seeds, lime, trees, or

other farming materials, or any soil-terracing services, furnished by such agency; and for the payment of all expenses necessary in making such grants, including all or part of the costs incident to the delivery thereof.

In carrying out the purposes of subsection (a) of section 7, the Secretary may enter into agreements with agricultural producers for periods not to exceed ten years, on such terms and conditions as the Secretary deems desirable, creating obligations in advance of appropriations not to exceed such amounts as may be specified in annual appropriation Acts. Such agreements (i) shall be based on conservation plans approved by the soil and water conservation district or districts in which the lands described in the agreements are situated, and (ii) may be modified or terminated by mutual consent if the Secretary determines such action would be in the public interest. The Secretary also may terminate agreements if he determines such action to be in the national interest and provides public notice in ample time to give producers a reasonable opportunity to make arrangements for appropriate changes in the use of their land.

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CONDITIONS AFFECTING PAYMENTS OR GRANTS OF AID

(d) Any payment or grant of aid made under subsection (b) shall be conditioned upon the utilization of the land, with respect to which such payment is made, in conformity with farming practices which the Secretary finds tend to effectuate any one or more of the purposes specified in clause (1), (2), (3), (4), [or] (5), *or (6)* of section 7(a).

Any payment made under subsection (b) with respect to any farm (except for lands which the Secretary determines should not be utilized for the harvesting of crops but should be permanently used for grazing purposes only) shall, if the number of cows kept on such farm, and in the county in which such farm is located, for the production of milk or products thereof (for market), exceeds the normal number of such cows, be further conditioned upon the utilization of the land, with respect to which such payment is made, so that soil-building and soil-conserving crops planted or produced on an acreage equal to the land normally used for the production of soil-depleting crops, but, as a condition of such payment, not permitted to be so used, shall be used for the purpose of building and conserving the fertility of the soil, or for the production of agricultural commodities to be consumed on the farm, and not for market. Whenever it is determined that a county, as a whole, is in substantial compliance with the provisions of this paragraph, no payment shall be denied any individual farmer in the county by reason of this paragraph; and no payment shall be denied a farmer by reason of this paragraph unless it has been determined that the farmer has not substantially complied with the provisions of this paragraph. Whenever the Secretary finds that by reason of drought, flood, or other disaster, a shortage of feed exists in any area, he shall so declare, and to the extent and for the period he finds necessary to relieve such shortage, the operation of the condition provided in this paragraph shall be suspended in such area and, if necessary to relieve such shortage, in other areas defined by him. As used in this paragraph, the term "for market" means for

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disposition by sale, barter, or exchange, or by feeding (in any form) to dairy livestock which, or the products of which, are to be sold, bartered or exchanged; and such term shall not include consumption on the farm. An agricultural commodity shall be deemed consumed on the farm if consumed by the farmer's family, employees, or household, or if fed to poultry or livestock other than dairy livestock on his farm; or if fed to dairy livestock on his farm and such dairy livestock, or the products thereof, are to be consumed by his family, employees, or household. Whenever the Secretary has reason to believe the income of producers of livestock (other than dairy cattle) or poultry in any area from such sources is being adversely affected by increases in the supply for market of such livestock or poultry, as the case may be, arising as a result of programs carried out under this Act, he shall make an investigation with respect to the existence of such facts. If, upon investigation, the Secretary finds that the income of producers of such livestock, or poultry, as the case may be, in any area from any such source is being adversely affected by such increases, he shall, as soon as practicable, make such provision in the administration of this Act with respect to the use of diverted acres as he may find necessary to protect the interests of producers of such livestock or poultry in the affected area.

DIVISION OF PAYMENTS AMONG LANDLORDS, TENANTS, AND SHARECROPPERS

(e) Payments made by the Secretary to farmers under subsection (b) shall be divided among the landlords, tenants, and sharecroppers of any farm, with respect to which such payments are made, in the same proportion that such landlords, tenants, and sharecroppers are entitled to share in the proceeds of the agricultural commodity with respect to which such payments are made, or, effective with respect to the 1942 and subsequent farm programs, in the event of acquisition of title to, or lease of, any farm for use in connection with the national war effort which caused the producers on such farms to lose, prior to the time of harvest, their interests in the crops planted thereon, or the proceeds thereof, payments with respect to such crops, to the extent that full compensation for the loss of payments with respect thereto in connection with such acquisition or lease was not made to such producers, shall be divided among the landlords, tenants, and sharecroppers on such farm in the proportion which it is determined that such producers would have been entitled to share in the proceeds of such crops but for such acquisition or lease: *Provided*, That payments based on soil-building or soil-conserving practices *or agriculture-related pollution prevention or abatement practices* shall be divided in proportion to the extent which such landlords, tenants, and sharecroppers contribute to the carrying out of such practices. Such payments shall be paid by the Secretary directly to the landlords, tenants or sharecroppers entitled thereto, and shall be computed at rates which will permit the Secretary to set aside out of the funds available for the making of such payments for each year an amount sufficient to permit the increases herein specified to be made within the limits of the funds so available. If with respect to any farm the total payment to any person for any year would be:

(1) Not more than $20, the payment shall be increased by 40 per centum;

(2) More than $20 but not more than $40, the payment shall be increased by $8, plus 20 per centum of the excess over $20;

(3) More than $40 but not more than $60, the payment shall be increased by $12, plus 10 per centum of the excess over $40;

(4) More than $60 but not more than $186, the payment shall be increased by $14; or

(5) More than $186 but less than $200, the payment shall be increased to $200.

In the case of payments of more than $1, the amount of the payment which shall be used to calculate the 40-, 20-, and 10-percentum increases under clauses (1), (2), and (3) shall not include that part, if any, of the payment which is a fraction of a dollar.

Beginning with the calendar year 1939, no total payment for any year to any person under such subsection (b) shall exceed $10,000. In the case of payments made to any individual, partnership, or estate on account of performance on farms in different States, Territories, or possessions, the $10,000 limitation shall apply to the total of the payments for each State, Territory, or possession, for a year and not to the total of all such payments.

Persons who carry out farming operations as tenants or sharecroppers on cropland owned by the United States Government and who comply with the terms and conditions of the conservation program, formulated pursuant to sections 7 to 17, inclusive, of this Act, as amended, shall be entitled to apply for and receive payments, or to retain payments heretofore made, for their participation in said program to the same extent as other producers. Persons who carry out conservation practices on federally owned noncropland which directly conserve or benefit nearby or adjoining privately owned lands of such persons and who maintain and use such Federal land under agreement with the Federal agency having jurisdiction thereof and who comply with the terms and conditions of the agricultural conservation program formulated pursuant to sections 7 to 17 of this Act, as amended, shall be entitled to apply for and receive payments under such program to the same extent as other producers.

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APPROPRIATIONS, AUTHORIZATIONS AND ALLOCATIONS OF FUNDS

SEC. 15. To enable the Secretary of Agriculture to carry out the purposes of sections 7 and 8 there is hereby authorized to be appropriated for any fiscal year not exceeding $500,000,000.

The funds available for payments (after allowing for estimated administrative expenses, and not to exceed 5 per centum for payments with respect to range lands, noncrop pasture lands, and naval stores) shall be allocated among the commodities produced with respect to which payments or grants are to be computed. In allocating funds among the commodities the Secretary shall take into consideration and give equal weight to (1) the average acreages planted to the various commodities (including rotation pasture), for the ten years 1928 to 1937, adjusted for abnormal weather and other conditions, including acreage diverted from production under the agricultural

adjustment and soil conservation programs; (2) the value at parity prices of the production from the allotted acreages of the various commodities for the year with respect to which the payment is made; (3) the average acreage planted to the various commodities during the ten years 1928 to 1937, including the acreage diverted from production under the agricultural adjustment and soil conservation programs, in excess of the allotted acreage for the year with respect to which the payment is made; and (4) the value based on average prices for the preceding ten years of the production of the excess acreage determined under item (3). The rate of payment used in making payments to the producers of each commodity shall be such that the estimated payments with respect to such commodity shall equal the amount of funds allocated to such commodity as herein provided. For the purpose of allocating funds and computing payments or grants the Secretary is authorized to consider as a commodity a group of commodities or a regional or market classification of a commodity. For the purpose of computing payments or grants, the Secretary is authorized to use funds allocated to two or more commodities produced on farms of a designated regional or other classification to compute payments with respect to one of such commodities on such farms, and to use funds, in an amount equal to the estimated payments which would be made in any county, for making payments pursuant to a special program under section 8 approved by the Secretary for such county: *Provided*, That farm acreage allotments shall be made for wheat in 1938, but in determining compliance wheat shall be considered in the group with other corps for which special acreage allotments are not made. Notwithstanding the foregoing provisions of this section and the provisions of section 7(g), programs of soil building practices [and], soil- and water-conserving practices, *and agriculture-related pollution prevention and abatement practices* shall be based on a distribution of the funds available for payments and grants among the several States in accordance with their conservation needs, as determined by the Secretary, except that the proportion allocated to any State shall not be reduced by more than 15 per centum from the distribution of such funds for the next preceding program year. In carrying out such programs, the Secretary shall give particular consideration to conservation problems on farm lands diverted from crops under acreage allotment programs and to the maintenance of a proper balance between soil conserving and soil depleting crops on the farm.

INDIVIDUAL VIEWS OF MR. YOUNG

While I have at least one serious objection to this Bill, I voted to report it to the Senate where there will be an opportunity to make some necessary changes. Also if approved by the Senate, and I hope it will be, the Senate-House Conference Committee too will have considerable latitude in writing a new law that will serve this long needed purpose.

This legislation will go a long way toward providing improved employment opportunities, better community facilities and broadened programs for credit to finance economic development in our rural areas. The rural development credit and grant program provisions of this Bill, together with similar provisions in H. R. 12931, as passed by the House of Representatives, can be developed to provide the basis for resolving these problems.

I am opposed to the $500 million dollar rural revenue-sharing portion of this Bill for several reasons. It is tied closely with the proposed general revenue sharing with the States. To support the revenue sharing provisions in this Bill, would obligate me to vote for the multi-billion dollar proposed revenue sharing legislation now pending. The sharing of Federal revenue with the States might be desirable if the Federal Government was not, year after year, including the present fiscal year, faced with large deficits and a huge over-all national debt in excess of $490 billion dollars. Finally, the rural revenue sharing proposal could have the effect of drawing off needed funds from other long established and necessary programs that are now serving rural America in an effective and efficient manner.

MILTON R. YOUNG.

ADDITIONAL VIEWS OF MESSRS. MILLER AND DOLE

The bill which accompanies this report is undoubtedly the most comprehensive rural development legislation ever presented to the United States Senate. Because of our commitment to rural development, we voted to report this bill, although not approving of several provisions, in order that the Senate and, ultimately, the Conference Committee, might work its will.

We are particularly concerned with the almost total over-lapping of authorities contained in Titles I and II of the bill.

Title I would create an entirely new rural development banking system, modeled after the Farm Credit System. However, while the Farm Credit System was designed to deliver relatively small loans to a relatively large number of borrowers in a fairly homogeneous farming industry, the rural development banking system would likely make a small number of relatively larger loans to borrowers in a wide variety of non-farming. commercial industries and for community facilities. (See USDA Report—page 94).

The new credit system would be composed of a complicated new bureaucracy for loan-making purposes. This approach has several built-in disadvantages including: requiring a long time to establish an effectively operating organization; being expensive to operate, thereby using up funds that could be more profitably used for rural development; creating new national, regional, and some new local lending agencies with little or no lending experience; and being likely to make a larger than normal number of mistakes during its early years which might harm the entire rural development effort.

An even more serious set of difficulties arises with the subsidy provisions of the rural development banking system. This would allow interest subsidies to private businesses which obtain loans from the system and are unable to repay at the market rate of interest. In the case of community facilities, loans could be augmented by grants.

The interest subsidy would be available only to firms locating in areas which have had a net loss of population. This would have the effect of encouraging only marginal firms to locate in those areas, because only those firms which are unable to pay full interest on their loans would be entitled to subsidies.

This "selection of the weakest" process could weaken, rather than strengthen, the rural economy.

Although the rural development banking system is billed as a "hard credit" bank, the interest subsidies and grants add to its duplication of other programs authorized in the bill. In addition, there would be created an insurance fund through which the Secretary of Agriculture may guarantee loans made by the credit system. This creates additional duplication of Farmers Home Administration programs.

In our view, amendments to the Consolidated Farmers Home Act of 1961 which are provided in Title II of the bill, in conjunction with revenue sharng in Title III, offer a much preferred, broad-based approach to the credit needs of rural America.

Title II authorizes a wide range of credit services for business, commercial, and industrial purposes, and for community facilities and services. This would be a loan guarantee system utilizing the tested and proven financing mechanism of the Farmers Home Administration.

The Farmers Home amendments in Title II authorize loan guarantees for any type of project "that contributes to the objective of a balanced national growth policy . . . the enhancement of any rural community or rural area as a place to live and make a living . . . that provides increased employment or income for or directly benefit rural residents. . . ."

In addition to the broad grant of authority contained in the foregoing statement, the bill also enumerates twelve specific, yet broad-based, types of projects which may be financed through FHA loan guarantees. Among the specific types of eligible projects enumerated are: manpower development and training, establishment and improvement of public educational facilities and educational methods; establishment and improvement of land, water and air transportation systems; and establishment and improvement of health and nutrition facilities and services.

This title authorizes FHA to guarantee up to 90 percent of loans for business or commercial purposes and up to 100 percent of loans for community facilities. We agree with the elimination of several proposed grant authorities in Title II because of the authorization for a $500 million annual appropriation for rural revenue sharing provided in Title III.

We hold some reservations with regard to the $75 million in pollution abatement and control grants provided in Title II. This authority establishes a precedent which, in effect, would allow subsidization of a great number of polluters including, "public, private, or cooperative organizations organized for profit or nonprofit or individuals". In addition, there would be duplication and overlap with the Rural Environmental Assistance Program whose authority is expanded to cost-sharing for "prevention and abatement of agriculture related pollution" in Title VIII of the bill.

We regard the reorganization of Farmers Home Administration proposed in Title II to be an awkward approach if the 6,000 plus field staff of the agency is to be used most efficiently. It is impossible for us to determine how this efficiency could be maintained with the creation of two agencies, a Farm Development Administration and Rural Enterprise and Community Development Administration, being guided by separate Administrators and using the same field staff.

It seems to us that creation of Farm Development, Community Facility Development, and Business Development divisions operated under a single Administrator would be the most efficient method of administering the new authorities given to Farmers Home Administration under this bill.

JACK MILLER.
BOB DOLE.

INDIVIDUAL VIEWS OF MR. CURTIS

I concur with my colleagues, Senators Miller and Dole, with regard to the lack of need for the rural development banking system proposed in this bill. I wish to further express my opposition to Title III (Rural Development Revenue Sharing) which proposes $500 million new spending which has not been budgeted.

The Federal Government is in no position to share anything but a portion of the estimated $39 billion deficit for fiscal 1972.

If revenue sharing is to be included in this measure it should be the Rural Development Revenue Sharing proposal offered by President Nixon. That proposal would have authorized transfer of funds now being spent on eleven categorical grant programs to the States. Each individual State would then have had the option as to whether or not a portion or all of the eleven categorical programs would have been continued.

The President's Rural Development Revenue Sharing program was proposed as a reaffirmation of faith in State and local governments by allowing them to determine, within broad categories, how best to spend revenues received from the Federal Government. The Rural Development Revenue Sharing proposal in Title III of this bill is nothing more than a handout of money, which the Federal Government does not have, to the States and their subdivisions and does nothing to remove the often stifling and frustrating restrictions which require that funds under Federal grant programs be used for narrow purposes.

CARL T. CURTIS.

INDIVIDUAL VIEWS OF MR. AIKEN

The Rural Development Act of 1972 contains a number of important provisions which should be enacted into law if rural life is to have modern and efficient economic and social attractions.

Title II is especially important for it contains broad new powers which are critically needed if the Farmers Home Administration is to become the central source of credit and grant funds for the wide range of development projects which our rural areas require.

The bill also contains important new provisions for Federal cost-sharing to improve water quality, and provide technical assistance in solving problems of land management and agricultural waste control. Closely linked to these are additional provisions for rural fire protection and Federal cost-sharing for rural municipal, industrial and community water supply needs.

These sections of the bill were originally contained in S. 2981 which I introduced with the Chairman of the Committee and 69 other co-sponsors. They would allow for effective expansion of our Small Watershed Program and Resource Conservation and Development projects.

Another section of considerable merit authorizes special technical assistance for small marginal farms and would allow the establishment of a nationwide Farm Family Program similar to the highly successful program which has been developed as a national pilot program in Vermont over the last three years.

These important provisions are, however, jeopardized by Title I, which should not be in the bill and which, if retained, might very well block any hope for enactment of the desirable provisions of the bill.

Title I should be dropped as it duplicates and overlaps the new FHA functions provided in Title II. It would establish a massive new untried banking system which would compete not only with private banks but with FHA as well. As an independent agency it would escape the normal budgetary and personnel ceilings and would set its own interest rates.

It could become a secondary market for obligations. It would set its own loan terms and conditions. The Secretary could insure or guarantee its obligations with the full faith and credit of the Federal Government. The bank could accept deposits and pay interest on them like any normal bank.

It could become a bonanza for political patronage as it has 10 regional appointed boards of directors and one Federal board of directors, each consisting of 12 members.

The proposed banking system would not be required to pay Federal income taxes on its earnings. The system would consist of a Federal bank, 10 regional banks and hundreds of local district banks. Practically any institution would be eligible to become one of its district banks.

The banking system would also have funds to subsidize the construction of bank buildings, operation costs and interest without limit. This subsidy is such that it could reward inefficiency.

The Senate should strike Title I and insist on the expansion of FHA and other existing credit agencies to perform the credit functions needed for rural development.

There are certain other provisions of the bill, such as the revenue sharing proposal, with which I am not fully satisfied at this time. With the exception of Title I, however, to which I am completely opposed, other provisions of the bill can be taken up in Conference with the House and modified or deleted if it is found advisable.

GEORGE D. AIKEN.

INDIVIDUAL VIEWS OF MR. ELLENDER

The Rural Development Act of 1972 contains a number of features which I feel are needed and necessary. For example, Title IV would further broaden and increase the usefulness of P.L. 566, the Small Watershed Program, in two specific and very important areas—rural development and protection of the environment. The amendments to P.L. 566 contained in this legislation will provide the Secretary of Agriculture with additional authorities for which there is presently a justifiable need.

In addition, Title V of the proposed Act amends the Bankhead-Jones Farm Tenant Act to strengthen the Resource Conservation and Development Program which I originally sponsored in 1961. This federal-state-local cooperative effort has resulted in dynamic programs designed to improve the quality of life in rural America. These programs have been effective, and have gone forward at a reasonable cost to the Federal Government.

There are a number of other provisions which receive my support, but I cannot in all good conscience support this bill in its entirety.

I am primarily concerned with the two-pronged question of duplication of effort and vastly increasing federal costs.

Concerning the latter point first, in recent months many responsible voices in the Congress, the Executive Branch and the public at large have been raised against what many see as a tendency in the Congress to give legislative approval to large new federal programs which start out with small beginnings but soon mushroom into large, expanding and costly drains upon the federal taxpayer. In my opinion, this Congressional tendency reached a high point several years ago. The size of the budget today is a reflection of those federal programs authorized by the Congress in the mid-1960's with the blessings of the Administration. These have come to full growth at the multi-billion dollar level. I regret to say that the instant legislation seems to be a definite continuation of a trend which I thought had been brought under some semblance of control in the recent past.

As required by the Legislative Reorganization Act of 1970, the Committee report on the proposed Rural Development Act of 1972 contains cost estimates which project the federal expenses likely to be incurred over the five years following its enactment. I do not think it would be amiss if I were to repeat those figures at this point in my statement. I believe they should be made widely known to all the Congress and to all our citizens and taxpayers.

If this bill is enacted in its present form, costs for the current fiscal year are estimated to amount to $5,200,000. Costs for the first full fiscal year of operation would amount to $620,160,000. Costs for the second fiscal year of operation are estimated to amount to $909,160,000; for the next year $1,135,666,000; for the year following $1,338,600,000 and for the fifth year after the enactment of this initial authorization, the cost from this small beginning is estimated to be at the $1,500,000,000 level.

I am in sympathy with the aims contained in and espoused by this proposed legislation. My record in the area of concern for our rural people and rural development in general, compiled over 35 years as a member and Chairman of the Agriculture and Forestry Committee, speaks for itself. It needs no defense from me here. Without question, our rural communities and people badly need more attention from the Congress and from the national Administration. To be effective, however, that attention must be presented in responsible legislative vehicles, and, frankly, I find much in the pending bill that seems to represent legislative irresponsibility.

I think this is indicated best by the proposed creation of an entirely new and wide-reaching financial enterprise for the supposed benefit of our rural areas. Certainly, I would not argue here or elsewhere that additional benefits are not badly needed. I cannot, however, agree that this need will best be met by the creation of an entirely new entity under the nice-sounding title of "Federal Rural Development Credit Agency." If we were starting from "scratch" in this legislative area; if this were the 74th or 75th Congress of the mid-1930's rather than the 92d Congress of 1972, there might be more merit in this approach. But in light of the programs brought into being by the Agriculture Committees of the Congress over the last three decades, the addition of such a new agency is difficult to understand or justify. If anything is needed at this time, it is a consolidation of the efforts being directed within the Department of Agriculture, the Department of Health, Education and Welfare, the Department of Commerce and even the Department of Housing and Urban Development. Instead, what we have here is a further splintering of the federal efforts aimed at improving the quality of rural life.

This bill sets up a vast new credit system originally financed by the Federal Government and designed to make loans to anyone for any rural development purpose.

At the same time, the bill amends the Consolidated Farmers Home Administration Act to authorize loans to anyone for any rural development purpose.

In other words, there is a vast duplicity of effort introducing a high degree of competition to make funds available for rural development purposes. In this situation I can see substantial waste of federal funds and a high degree of losses because of this competition.

I regret that I am forced to oppose this legislative proposal. Although there is much in it which I would wholeheartedly favor, overall I see the legislation as representing too great a drain on the taxpayers, as increasing the layers of government involvement without cause, and of ultimately futher widening the gap between our urban centers and rural areas.

ALLEN J. ELLENDER.